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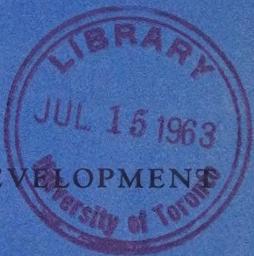
ONTARIO ECONOMIC REVIEW

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Robert W. Macaulay, Q.C., Minister

Stuart W. Clarkson, Deputy Minister

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F O R E W O R D

As part of its policy to find new and better ways of serving the people of Ontario, the Department of Economics and Development is pleased to present this first edition of the new Ontario Economic Review.

This review is prepared by the Economics Branch of the Department. It is our intention that the booklet will serve two useful purposes:

Firstly, provide current information on major economic developments within the province and major events in Canadian and international economic affairs.

Secondly, publish a feature article analyzing in depth some important economic development.

In addition, The Review will present seasonally adjusted data on the Ontario economy in both graphic and tabular form.

The Department of Economics and Development will make the Ontario Economic Review available free of charge to organizations, industry, or individuals who request it.

T A B L E O F C O N T E N T S

The Ontario Economy

Canada And The Exchange Rate

Economic Indicators — Seasonally Adjusted (Charts).

Economic Indicators — Seasonally Adjusted (Table).

THE ONTARIO ECONOMY

All major sectors of the Canadian economy participated in the growth in the Gross National Product last year which amounted to 8 per cent in value and 6 per cent in real terms. The largest single source of strength was total consumer spending. Personal income again climbed rapidly as did personal savings. Capital investment, although not large enough to provide a real stimulus to the economy, continued to advance. Foreign trade was greatly improved, assisted in part by the tariff surcharges and the devalued Canadian dollar.

In the fourth quarter, the Gross National Product in real terms continued to advance as it did in the early part of the year, but at a much slower pace. About half of the rise was accounted for by price increases. The rate of inventory building, which had such an appreciable effect on production in the third quarter, dropped sharply. On the other hand, consumers were buying and this was the major spark to the rise in G.N.P. Sales of durable goods, particularly automobiles, led the way. Exports expanded significantly while imports declined, as the effects of the dollar devaluation and austerity measures became more prominent. The overall result was the smallest quarterly increase in real G.N.P. since the first quarter of 1961.

In Ontario the rate of growth in the fourth quarter was less than for Canada as a whole. Weak sectors included the mining, construction and forestry industries. The manufacturing sector recorded the largest advance. The finance, insurance and real estate sector, and the wholesale and retail sectors also continued to increase.

In February the index of industrial production reached a new high after remaining fairly constant since August 1962, with continued strength in both durable and non-durable manufacturing. Consumer purchases continued to be a major source of strength in the province, backed by a further rise in labour income. Retail sales in the first two months of this year were running about 1.3 per cent ahead of the last two months in 1962. Auto sales continued to head the list.

Residential construction is expected to show little or no improvement during the year.

On balance, most of the major indicators for the province are pointing upwards. Manufacturing activity has been buoyant and has kept employment

at a high level. Fortunately the labour force has not been expanding rapidly so that unemployed workers have remained at relatively low levels. In March, unemployment, as a percentage of the labour force, was at 4.0 per cent, compared with 5.3 per cent for Canada as a whole and 5.6 per cent for the United States.

Many facets of the Ontario economy are directly affected by the business climate in the United States. It is, therefore, encouraging to see that a further rise in U.S. Gross National Product is indicated for the first quarter of this year; that industrial production, which remained almost constant for eight months, rose in March; that investment in plant and equipment, both actual and intended, is better than expected; and that profits in the fourth quarter of 1962 hit a new high level after inching up almost imperceptibly in the first three quarters. Profits for the whole year, after taxes, were 16 per cent higher than in the previous year and \$1.4 billion more than for the previous record year of 1959.

The removal of the remaining surcharges on March 31 of this year has posed the question as to whether foreign competition will undermine the present high level of domestic production. This seems unlikely, particularly in Ontario where the secondary manufacturing industries are in a strong competitive position. The devaluation of the Canadian dollar has also provided a substantial competitive edge. In the last two years, the differential has been in the magnitude of 12 to 15 per cent.

One of the major factors in the 1962 economic surge was the operation of the steel industry at close to capacity. One of the basic factors in this development is that the steel industry since the mid-1950's has greatly increased the number and types of products it makes. In Ontario, the Steel Company of Canada is still adding to its facilities for production of wide sheet, and the Algoma Steel Corp. Ltd., is also increasing its capacity in this line.

It was announced recently that Trans-Canada Pipe Lines Ltd., with the approval of the National Energy Board, intends to undertake the largest expansion program in its history. This will involve the construction of 205 miles of loop line mostly in Manitoba and Saskatchewan, and some in Ontario. In addition two compression stations are being planned for Ontario — at Haileybury and Cobourg.

All of the steel used in the project will be produced in Ontario by Algoma. About 65 per cent of the rolling operation will be done by Welland Tubes at Welland. The Steel Company of Canada is also preparing for wide sheet skelp production. The bulk of the supplies and mechanical equipment used in constructing the line will also be purchased from Ontario companies.

Motor vehicle production and sales have contributed to economic expansion in Ontario. Although there was a fall-off in European car sales, the volume of total motor vehicle sales in Canada for the first two months of this year was 9.6 per cent higher than for the same two months last year. In the first two months of this year, sales of new Canadian and U.S. models were 21 per cent higher than sales in the same period last year. All-in-all the sales picture augurs well for the motor vehicle industry in Ontario, which accounts for about 98 per cent of the total vehicles produced in Canada. So far, total motor vehicle production is 26 per cent higher than in the corresponding period last year. It is interesting to remember that 1962 was a record year for both motor vehicle production and sales in Canada.

Another encouraging recent development in the economy is the new contract the de Havilland Aircraft of Canada Ltd., has arranged with Douglas Aircraft of California. A production-sharing contract worth \$65 million is expected to create about 2,000 new jobs in the Toronto area. Production will take place at Malton in the plant that was formerly owned by Avro and is expected to start as early as July this summer.

The new aircraft are being built for short to medium range routes of 100 to 1,000 miles and

Douglas hopes to sell them in the Canadian market. They are anxious to start as soon as possible because of competition from five other companies for this market. The first delivery is set for August, 1964. About 1,500 production workers and 500 engineering and clerical staff will be needed. This work force is expected to reach a peak within six months.

Canada's merchandise trade has been significantly improved. There was a trade surplus last year for the second year in a row. In the first quarter of this year a trade surplus appeared again. This was the first time in 10 years that a surplus has occurred in the first quarter. Exports rose by 6.6 per cent, while imports fell 3.5 per cent, compared to the first quarter of last year. Recent export orders include a \$2.4 million sales of electric diesel locomotives to Brazil by General Motors Diesel Ltd., a \$1.9 million sale of road graders to Argentina by the Dominion Road Machinery Co. of Goderich and a contract worth \$9.3 million to Canadian General Electric Ltd. of Toronto to supply and construct a hydroelectric plant in Ceylon. Most of the materials for the plant in Ceylon will be produced in Canada.

The Ontario economy at the present time, although moving ahead a little less rapidly than in the first part of last year, is nevertheless strongly based. Consumer purchases, one of the basic ingredients of a healthy economy, is providing the principle lift at this time and the automobile and steel industries, two of the most important segments of our economy, are running in high gear. This conclusion is confirmed by the charts of the selected seasonally-adjusted economic indicators which show that the trend in 9 of the 12 indicators is upwards.

CANADA AND THE EXCHANGE RATE

H. M. PLOEGER

Economics Branch

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

The decision to devalue and fix the exchange rate of the Canadian dollar on May 2, 1962, marked a major turning point in Canadian policy. The subsequent withdrawal of most of the austerity measures,

which were introduced to support the dollar, focuses attention on the question as to the wisdom of fixed exchange rates. To understand the implications of this move, it is necessary to review the experience of

the Canadian dollar in the post-war period and to examine the pros and cons of the two systems Canada has adopted.

Historical Background

One of the most urgent post-war economic problems was the restoration of normal international economic relations. Most countries adopted pre-war exchange rates relying on exchange and import controls as well as assistance from the dollar countries to stabilize their currencies. The Canadian dollar was kept at its fixed war-rate of approximately 90 cents U.S. until its restoration to par (the pre-war level) in July 1946, when official reserves were in excess of \$1.6 billion. Heavy imports from the U.S. and assistance to Europe resulted in serious losses of reserves and downward pressure on the dollar. By the end of 1947, official reserves had fallen to \$502 million and emergency exchange conservation measures had to be adopted in order to maintain the exchange rate. Import and travel restrictions were introduced and a \$300 million credit was arranged with the Export-Import Bank.

The following years showed a marked improvement in the strength of the dollar. Official reserves rose to \$1.1 billion by the end of 1949. In that year, a world wide realignment of currency values took place under the auspices of the International Monetary Fund. Of prime importance was the devaluation of the pound sterling by 30.5 per cent. The Canadian dollar was pegged at 90.91 cents U.S.

The year 1950 marked the beginning of a large inflow of long-term investment capital to Canada, in addition to speculative inflows resulting from a general feeling that the Canadian dollar was undervalued. Canadian authorities decided to counteract inflationary pressures in the economy by adopting a fluctuating exchange rate in September 1950 to which the I.M.F. gave its reluctant approval. Rates were to be determined by market forces with the Exchange Fund smoothing out excessive fluctuations.

Canada has been reasonably successful in its experiment with a fluctuating exchange rate. The annual fluctuations were never very large and the capital inflow was, on balance, of a long-term, relatively stable nature. By the end of the fifties and during the early sixties, however, the deficit on current account was increasingly realized by an inflow of volatile short-term capital. In 1961 the Canadian government decided that it had become desirable to use the exchange fund to bring the Canadian dollar to a discount in terms of the U.S.

dollar. The psychological effect of this announcement in the June budget and the related uncertainty with regard to the Canadian dollar created a downward pressure on the exchange rate. In due course the exchange fund was used to keep the Canadian dollar up.

The real test for the "flexible" exchange rate came when, early in 1962, the inflow of long-term capital dried up and short-term capital started to abandon Canada. On May 2, 1962, the government, finding itself unable to stem the tide of the drain on official reserves, fixed the exchange rate at 92½ cents U.S., 2½ cents below the actual value at that time. However, by this time confidence in the Canadian dollar was really shaken and it proved impossible to maintain the new fixed rate without massive international assistance and a number of emergency measures.

Flexible Exchange Rates

The case for flexible exchange rates is complex and controversial. At first sight, this system makes a good deal of sense. The argument for them is that in the market for foreign exchange there must be some rate at which demand for and supply of the home currency will balance. By letting these forces determine the exchange rate, the government does not need to rely on the complementary use of monetary policy (as was the case with the gold standard), but instead the banking system is free to operate in the interest of economic growth and price stability. However, this system requires an effective market in forward exchanges to remove the uncertainties and risks for exporters and importers.

A flexible exchange rate system is not without dangers and several objections have been made to it. Firstly, the foreign trade structure of some countries is likely to be less amenable to adjustment through the exchange rate than others. It is conceivable that depreciation of an exchange rate caused by the deficit in a country's balance of payments may fail to correct a deficit balance of payments situation because of the nature of export and import demand. Lack of sensitivity in the demand for imports and exports is fairly general in the short period and much less likely over a longer period. Therefore, the adjustment process under flexible exchange rates will usually be less responsive and of a longer duration than is often assumed.

Secondly, it has been argued that frequent changes in the value of a currency would inhibit international investment. However, the Canadian experience would appear to nullify these fears. The I.M.F.

favours a system of adjustable pegged exchange rates which, though changeable only in cases of fundamental disequilibrium, would subject long-term capital to similar risks.

Thirdly, there is also the possibility that countries will deliberately engage in competitive depreciation especially in periods of unemployment by manipulating exchange reserves. The success of deliberate depreciation in attempts to gain export markets depends, of course, on the sensitivity of export and import demand.

The "Adjustable Peg" Exchange Rate System

This system, adopted by Canada in May 1962, is in essence a system of fixed exchange rates which may only be altered in cases of fundamental disequilibrium. (The I.M.F. left "fundamental disequilibrium" blissfully undefined.) The adherents of this system prefer nations to use their exchange reserves and they claim that, in selecting the appropriate rates of exchange, the distribution of the existing stock of international liquidity will not be materially altered. This notion is based on the optimistic assumption of perfect integration of the economic policies of the trading nations.

In today's world of full-employment policies and attempts at economic growth and price stability it is virtually impossible to have uniform economic policies in all trading nations. Foreign exchange and gold reserves may have to be quite large to defend fixed rates when economic policies diverge. Moreover, monetary authorities may have to change interest rates in order to defend both the exchange reserves and the fixed value of the currency. Alternatively, exchange controls and other restrictive policies may have to be introduced. As long as they have the economic wind in their sails, nations may be willing to relax these direct controls but with inflexible exchange rates they may well resume direct controls as soon as adverse conditions arise. One of the greatest problems for the adjustable peg system is the actual decision with regard to the proper value of a currency in terms of other currencies. A related problem, is that of the nature of "fundamental disequilibrium". Each case has to be studied on its own merits.

The fact that devaluation should not be made frequently may well tempt a country to make a sharp once-and-for-all reduction which will ultimately leave its currency undervalued. Once settled, the rate must be borne for a considerable period,

and the country's terms of trade, its export/import position and even in part its domestic stability will be determined thereby.

A significant disadvantage is found in currency speculation under the adjustable peg system. Once a currency falls under suspicion of impending devaluation, speculators have a strong incentive (without risking losses) to move funds from the weak currency to a strong one.

Conclusion

The success of the adjustable peg system depends upon the institutional framework through which it functions as well as enlightened management.

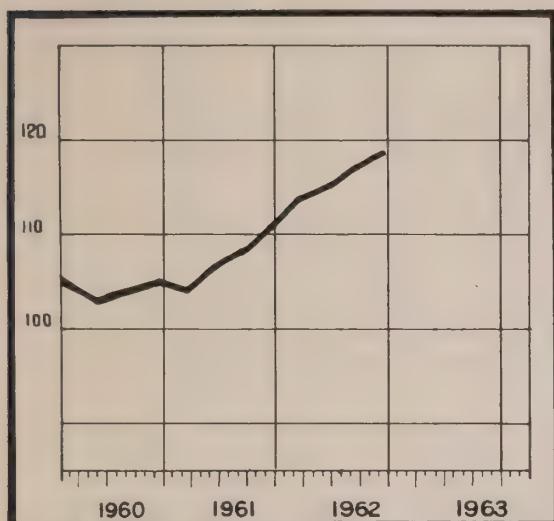
The fact that since 1945 such a system has worked may not be due to the merit of the system itself, but to the fact that it has been liberally buttressed by direct controls over balances of payments and by support from the United States to deficit countries. With the gradual removal of controls in the past few years the real test will still have to come.

Similarly, Canada's success with the flexible exchange rate has been more of a tribute to the Canadian economy than to the system of flexible rates. It has been suggested that Canada only proved that any country can successfully adopt a flexible rate if it simultaneously discovers oil. In the meanwhile, Canada has also proved that adverse circumstances may play havoc with a flexible exchange rate. It is essential that the market remains able to establish a norm around which stable expectations regarding a currency can be built.

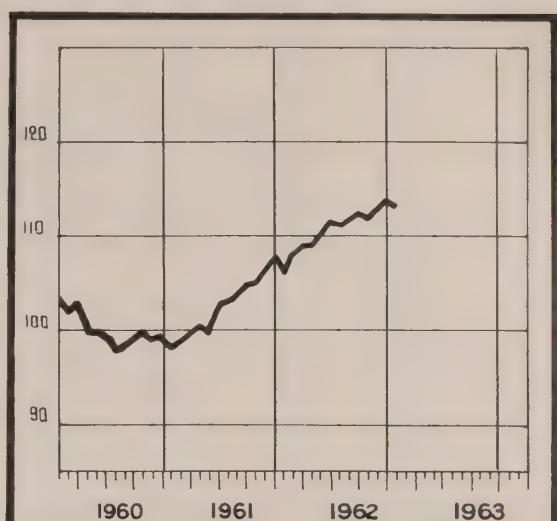
In the past years, the wide fluctuations in Canada's balance of payments position have been reflected chiefly in the value of its currency, while official holdings of gold and foreign exchange remained relatively stable. It can be expected, however, that with a fixed exchange rate substantial fluctuations will occur in these official holdings. These movements in the official holdings should not give rise to concern unless they become a continuous drain or a continuous accrual. Also, Canada is likely to find itself with less freedom in its monetary policies than during the fifties. The desirable monetary policy from the point of view of domestic economic conditions may well be at variance with the requirements imposed by balance of payments conditions in the absence of flexibility in the exchange rate. Whether or not Canada will be able to maintain its exchange rate at or about its present level remains to be seen.

ECONOMIC INDICATORS-SEASONALLY ADJUSTED

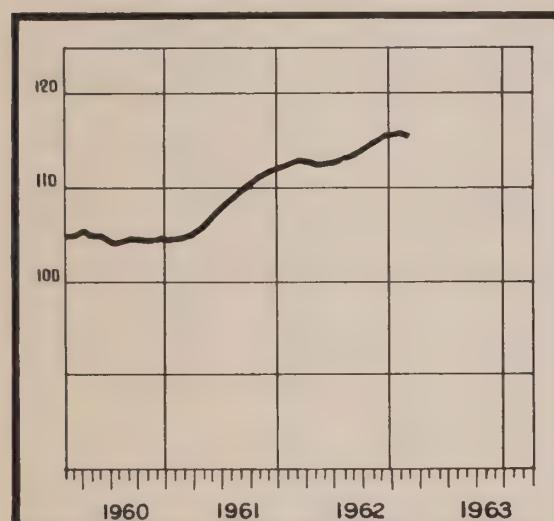
1959 = 100



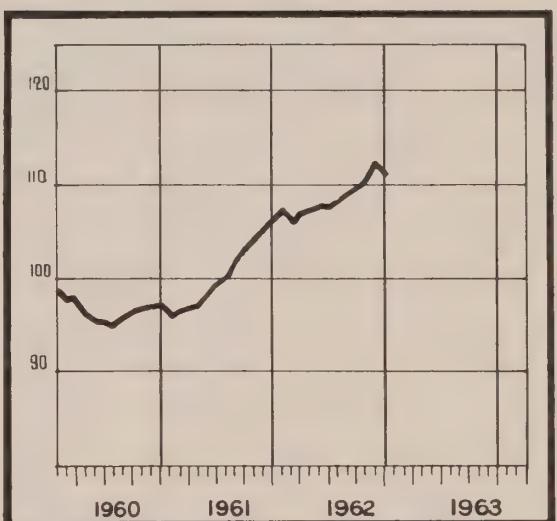
• GROSS NATIONAL PRODUCT (CANADA)



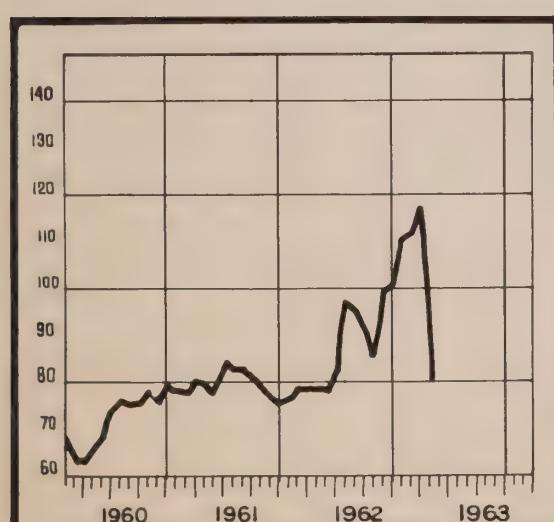
• INDEX MANUFACTURING PRODUCTION (CANADA)



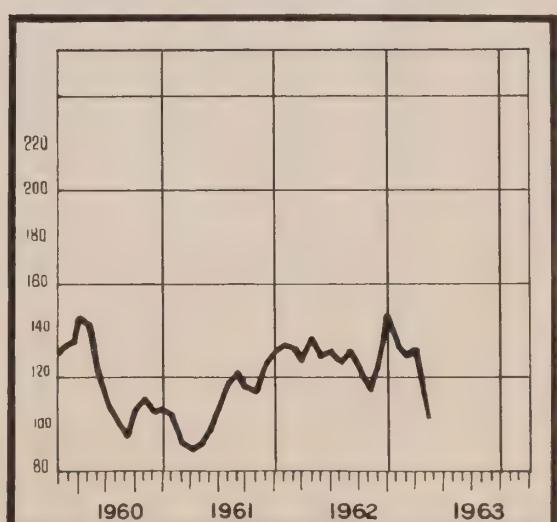
• POWER CONSUMPTION



• NEW ORDERS IN MANUFACTURING (CANADA)

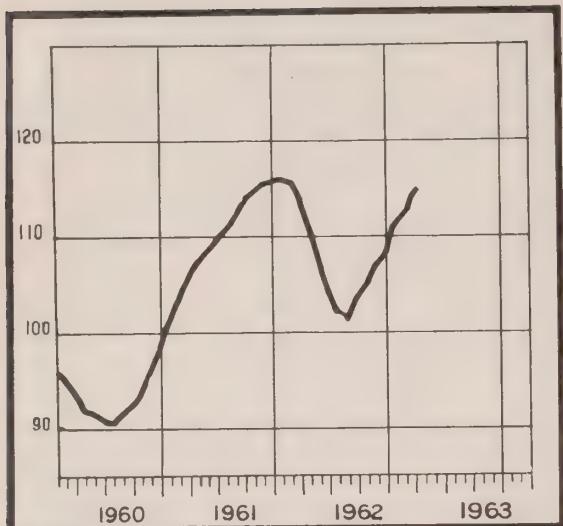


• HOUSING CONTRACTS

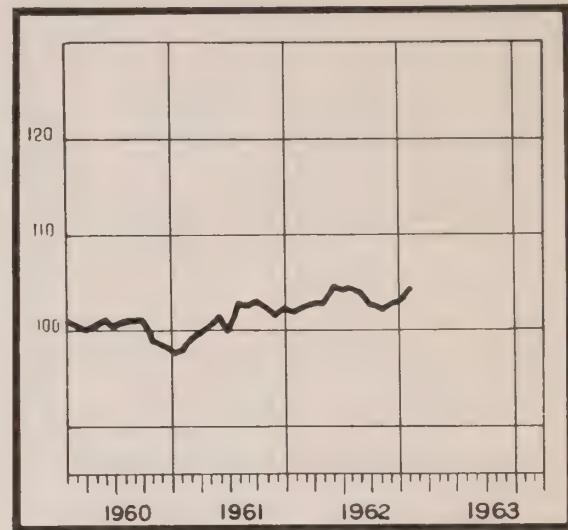


• BUSINESS, INDUSTRIAL & ENGINEERING CONTRACTS

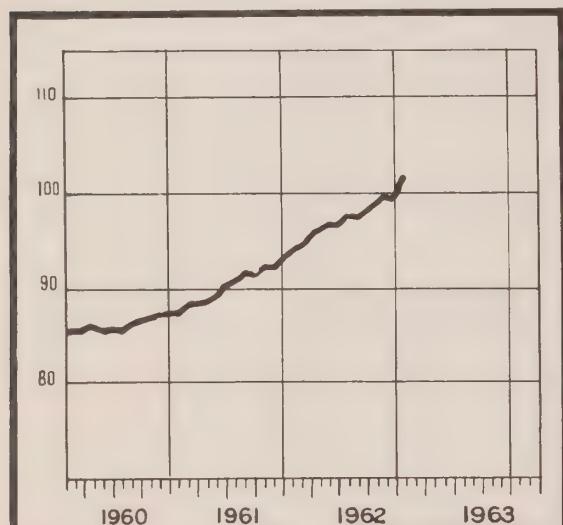
ECONOMIC INDICATORS—SEASONALLY ADJUSTED
1959 = 100



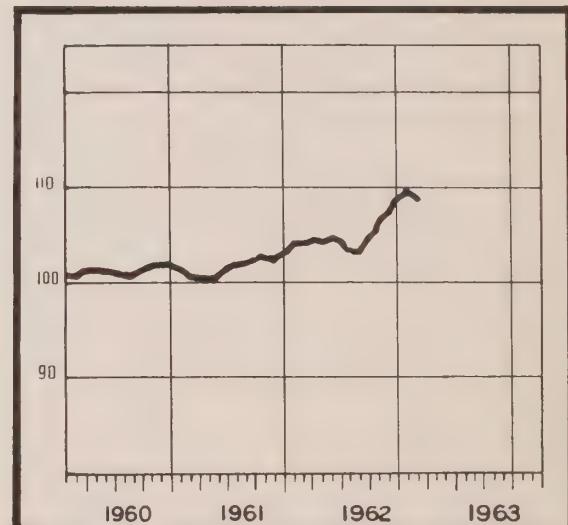
• 20 INDUSTRIAL STOCKS



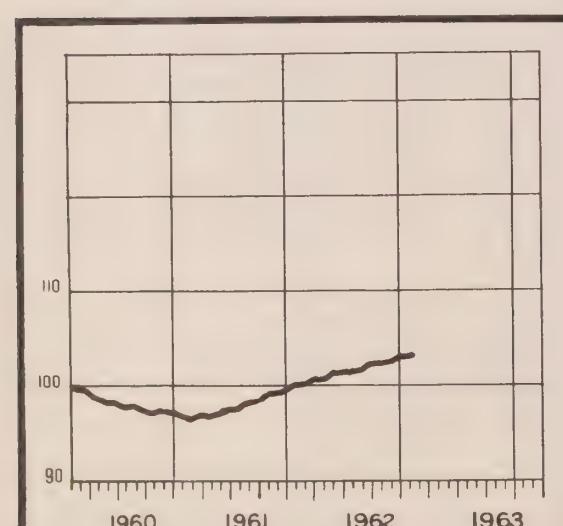
• PRICES, INDUSTRIAL MATERIALS (CANADA)



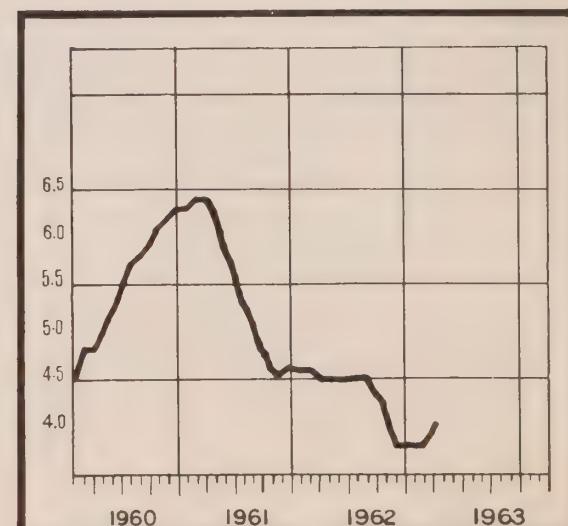
• LABOUR INCOME



• RETAIL SALES



• INDUSTRIAL EMPLOYMENT



• UNEMPLOYMENT RATE (% OF LABOUR FORCE)

THE USE OF ECONOMIC INDICATORS, SEASONALLY ADJUSTED,
IN THE ONTARIO ECONOMIC REVIEW

A study of the separate sectors of our economy shows that business cycles affect most of the individual factors. It has been apparent, however, that some activities are more sensitive to cyclical movements than others and that their turning points occur at different times in the cycle. We have selected a group of statistical measures of business and industry trends which are fairly sensitive to the business cycle and have classified them as to whether or not their turning points are earlier than, coincident with, or lagging behind the general economic turning point as indicated by the gross national product. In this selection we have relied heavily upon the experience of the National Bureau of Economic Research in the United States and of Mr. A. Beckett in Canada. Where possible we have used Ontario series but where no Ontario data was available, we have used the Canadian figures. In most of our business cycles Ontario has shown a similar trend to the rest of Canada, although there is usually a difference in the amplitude of the cycle.

The information on the trends in these series is hard to interpret because of the great seasonal variation in many of them. While this is a factor in almost all countries the ~~affects~~ of seasonal variation on the economy is particularly strong in Canada. Most of our primary industries, by their very nature, are subject to extreme seasonal fluctuations in activity. Field crop operations can only be carried out in the summer; logs have to be cut and hauled while the ground is frozen; the log drive must take place while the stream flow is high; lake transportation stops during the winter and so on. Most of our other economic activities are also geared to seasonal ups and downs.

Retail trade reaches two seasonal peaks - one before Easter and the other before Christmas. Automobile production is geared to meet the heavy spring and early summer sales demand. The clothing industry is particularly busy in spring in preparation for pre-Easter sales and for fall clothes in the late summer.

The study of economic trends is made more difficult because of these extremes of activity. It is almost impossible to tell, from looking at the raw statistics, how much of increased activity is due to seasonal factors and how much to a change in the business climate. For this reason statisticians have long worked on methods of deleting the seasonal effect from the figures.

Rough measures of seasonal variation can be made very easily. If the October figure for any series has for many years been shown to be about 25 per cent above the annual average, we could assume that the 25 per cent is the October seasonal and if we wanted to find what the general trend of that series was we would divide it by 1.25. Likewise the March figure may usually be only about 60 per cent of the annual average so that to find the comparable trend figure for March we would divide the March figure by .60. However, this seasonal variation may be more difficult to measure if the economy is very buoyant and the industry being measured is in a rapid upswing in activity. Thus the over-all long term trend is calculated and the average variations from it are considered to be the seasonal factors. Those seasonal factors are then removed from the successive data by dividing by the index as suggested in the rough method.

The processing of these series is on an electronic computer and certain refinements are built into the process. In the adjustments made in this department one of these refinements is the use of a moving seasonal trend based on the experience of the past five years. The Dominion Bureau of Statistics uses a slightly different time period but they also use a moving seasonal trend. This was found necessary because certain habits and customs change the pattern and extent of the seasonal influence e.g. the changes in timing of Central Mortgage and Housing financing altered the seasonal pattern of housing starts and completions. The nature and number of these refinements may make slight differences in the actual adjusted data but they are still doing the same basic job which was done by using a fixed seasonal index and they give the picture of what is really happening in the industry - is it becoming more healthy or less healthy.

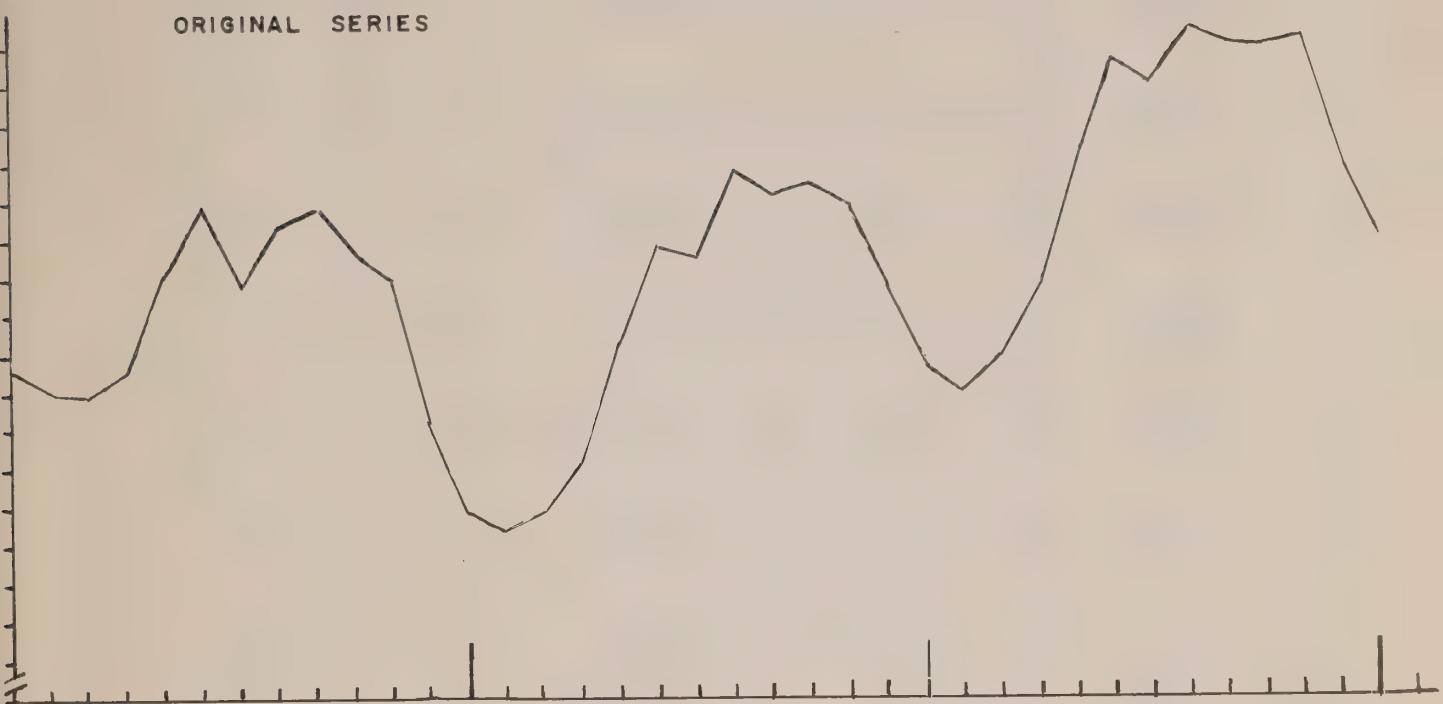
In the Economic Review we have been publishing some series of seasonally adjusted data from the Dominion Bureau of Statistics and others which are adjusted in the Ontario government. There are slight differences in the programmes used in Ottawa and in Toronto because we are using different equipment but they give approximately the same trend results. Those series adjusted in the Department of Economics and Development are also smoothed to remove short term irregularities and thus to provide a trend line.

Attached are charts showing unadjusted data for the Ontario Industrial Employment Index, seasonally adjusted data (not smoothed for short term irregularities), and the trend-cycle for the same series. These charts indicate how the process of seasonally adjusting and smoothing the irregularities

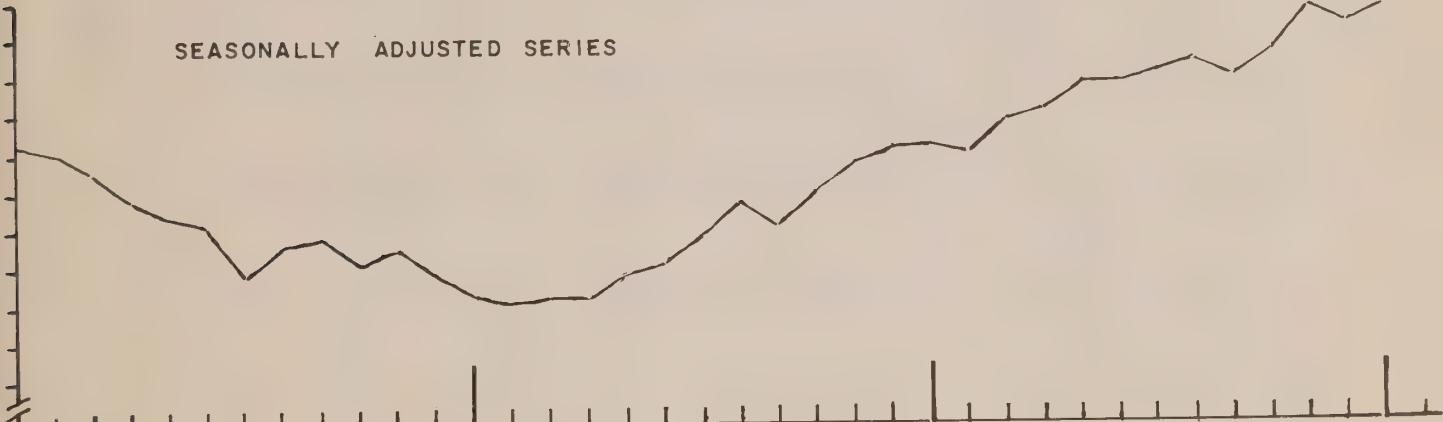
in the statistical series clarifies the picture of what is actually happening. The charts used in the Ontario Economic Review are based on the trend-cycles for the various series, that is, they are seasonally adjusted data smooth for short term irregularities. To make the 12 charts comparable, we have put all the series, with the exception of the unemployment rate, on an index basis of 1959=100. This allows the reader to make comparisons among the various indicators included in the charts.

INDUSTRIAL EMPLOYMENT INDEX - ONTARIO

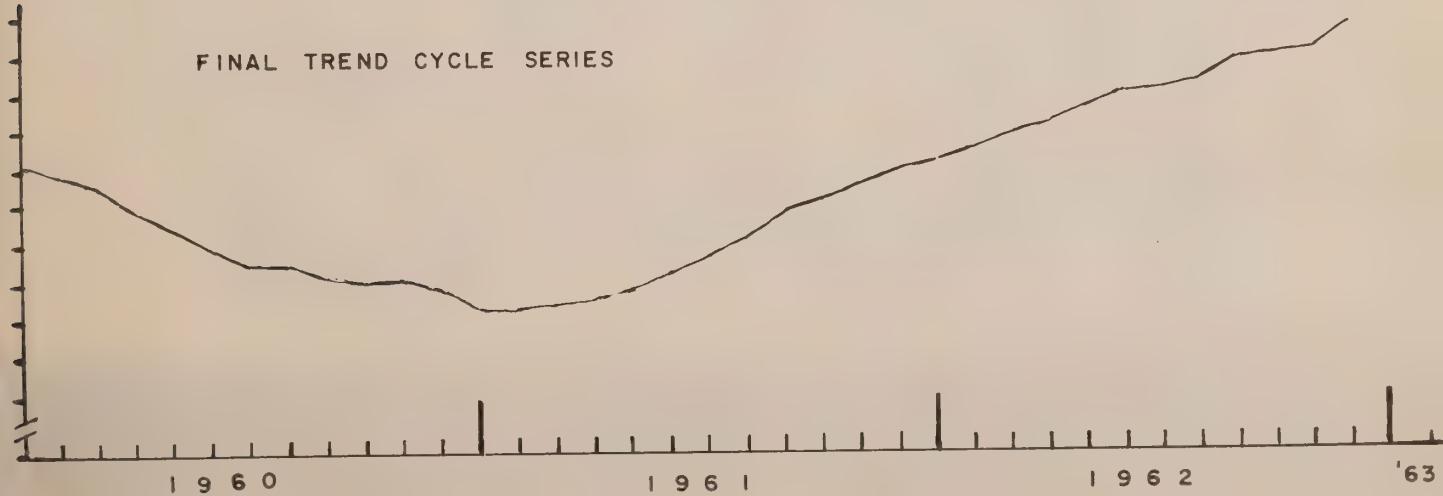
ORIGINAL SERIES



SEASONALLY ADJUSTED SERIES



FINAL TREND CYCLE SERIES



ECONOMIC INDICATORS - SEASONALLY ADJUSTED

	1963														
	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April
<u>LEADING INDICATORS</u>															
Average Weekly Hours Worked in Manufacturing (No.)	41.0	41.0	40.9	40.9	40.9	40.9	40.9	40.9	40.7	40.7	40.5	40.9	40.9	40.9	40.9
T.S.E. Industrial Stock Index Business Failures - Number	613.9	602.1	586.2	569.3	553.5	540.2	538.5	549.4	557.4	557.4	577.4	589.3	597.9	608.1	608.1
Business Failures - Liabilities	\$ 000	3,587	3,760	4,992	5,531	6,002	6,487	6,119	5,538	5,739	4,182	3,694	3,156	3,239	3,239
New Orders in Manufacturing*	\$ M	2,105	2,126	2,136	2,142	2,141	2,154	2,167	2,182	2,238	2,206	3,694	3,156	3,239	3,239
New Dwelling Unit Starts	(No.)	2,750	2,763	2,838	3,074	3,088	2,921	2,878	2,797	2,783	2,875	2,651	3,433	4,74.4	4,74.4
Housing Contracts	\$ M	33.7	33.5	33.5	33.5	34.9	41.8	41.3	39.6	36.8	42.9	43.4	47.4	48.2	50.4
Business, Industrial and Engineering Contracts	\$ M	83.5	80.1	86.3	81.8	82.8	79.1	83.5	76.8	73.4	78.8	92.2	84.7	81.7	83.4
Money Supply*	\$ M	15,012	15,138	15,321	15,561	15,556	15,382	15,001	14,983	15,113	15,210	15,297	15,391	15,579	15,592
<u>COINCIDENTAL AND LAGGING INDICATORS</u>															
Gross National Product*	\$ M	39,548	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Industrial Production*	\$ M	182.5	184.3	184.1	186.0	186.6	189.3	189.1	188.8	189.5	189.3	189.3	189.3	189.3	189.3
Total Manufacturing	\$ M	161.4	163.0	162.8	164.5	166.6	166.1	166.6	167.7	167.0	167.7	168.1	168.7	169.1	169.1
Non-Durables	\$ M	164.1	166.0	164.7	165.5	167.6	165.7	165.0	165.6	164.4	165.0	166.8	165.8	166.6	166.6
Durables	\$ M	158.4	159.6	160.7	163.2	165.5	166.7	168.5	170.3	170.1	171.8	173.2	172.0	172.1	172.1
Mining	\$ M	281.7	287.4	287.3	288.1	278.9	278.5	297.5	293.1	295.4	292.1	281.2	281.1	290.7	290.7
Electric Power and Gas Utilities	\$ M	335.9	335.2	333.9	341.7	337.6	340.5	350.4	339.4	340.7	341.9	334.3	351.8	352.0	352.0
Cheques Cashed in Clearing Centres	\$ M	2,741	2,774	2,805	2,841	2,840	2,858	2,861	2,903	2,922	2,953	3,024	2,981	2,981	2,981
Retail Trade	\$ M	540	542	541	542	540	536	536	543	552	556	563	568	568	568
Labour Income	\$ M	695	702	705	711	712	715	717	720	726	732	730	748	748	748
Labour Force	\$ M	2,390	2,390	2,406	2,415	2,424	2,424	2,428	2,419	2,416	2,409	2,415	2,421	2,421	2,421
Employed	\$ M	2,280	2,298	2,307	2,316	2,318	2,318	2,319	2,316	2,317	2,317	2,324	2,329	2,330	2,330
Unemployed as a % of Labour Force	%	11.0	10.7	10.8	10.8	10.9	10.9	10.9	10.3	9.8	9.7	9.1	9.1	9.7	9.7
Industrial Employment	\$ M	1949=100	121.5	121.9	122.2	122.6	122.9	123.1	123.3	123.7	123.9	124.2	124.7	124.8	124.8
Average Hourly Earnings In Manufacturing	\$ M	3,325	3,324	3,315	3,311	3,318	3,318	3,330	3,361	3,399	3,399	3,408	3,415	3,415	3,415
Power Consumption Unit Completions	\$ M	3,009	3,120	2,897	3,100	2,329	3,188	3,178	3,150	2,916	2,872	2,659	2,226	2,226	2,226
<u>ECONOMIC INDICATORS, NOT SEASONALLY ADJUSTED*</u>															
Dividend Payments	\$ M	1956=100	114.6	115.0	115.2	115.0	115.7	116.2	116.4	116.4	116.4	119.1	119.3	120.2	120.2
Prices, Industrial Materials	\$ M	1935-39=100	246.2	247.1	247.6	251.8	251.3	251.0	249.5	246.7	245.1	247.7	250.8	250.6	250.6
Domestic Exports	\$ M	408.9	455.6	448.8	597.7	530.7	546.8	540.1	479.6	602.6	586.1	493.6	424.6	424.6	424.6
Imports for Consumption	\$ M	447.8	530.2	427.8	650.4	528.8	529.0	521.5	468.9	586.7	555.3	2,608	2,539	2,663	2,663
Foreign Exchange Reserves	\$ M - U.S. \$	747	1,709	1,493	1,809	2,114	2,331	2,445	2,614	2,608	2,659	2,659	2,594	2,600	2,600

* Figures for Canada

THE ONTARIO ECONOMY

The business climate in Ontario is marked by a state of relaxed confidence now that the political uncertainty at Ottawa has been resolved and a new government has been installed. Warmer weather has brought with it an expansion of outdoor activity with a commensurate increase in employment, particularly in the construction and resort industries. The performance of the stock market this year, sharply contrasting with the bleak outlook a year ago, and a relaxation in the bank rate have all contributed to business optimism.

On the national level, total industrial production, which had not improved in the six months prior to February, rose in March on a seasonally adjusted basis. This rise was attributable mostly to increased mining production and expanded output in the non-durable goods manufacturing sector. The durable manufacturing sector, which provided the major source of strength in 1962, softened slightly. Most of the rise in mining production was in iron ore from Ontario and Quebec mines. There were also small gains in lead and petroleum production, mostly in the Western provinces.

The gain in iron ore production was particularly significant in Ontario where the annual output is usually about one-quarter of the Quebec total, but where the jump in tonnage was about two-thirds of that in Quebec. Whereas most of the Quebec output was exported, by far the largest percentage of Ontario's iron ore shipments were to domestic consumers. Relative accessibility to Ontario and Quebec deposits along the St. Lawrence Seaway and certain mining tax advantages have prompted a switch toward greater dependence on domestic supplies. This trend is likely to continue.

The rise in the non-durable manufacturing sector of the economy was broadly based, but some of the major increases were in canning and food processing, rubber products, synthetic textiles and silks, paper products and chemicals and allied products.

The lack of increase in durable goods production in March was accounted for mostly by a slight drop in the seasonally adjusted figure for motor vehicle production. This drop was only temporary, however, as in succeeding months

the rate of motor vehicle production rose again. When compared with last year, total motor vehicle production for the first five months was up 24 per cent. This is quite considerable when we remember that 1962 was a record year. Most noticeable so far this year are the outstanding gains made by Chrysler Corporation and American Motors. In comparison, the other automobile makers are showing moderate increases.

The maintenance of near-capacity steel production in March was the strong point in the durable goods sector. Although there is no expectation that the recent record rate of steel production will continue, it should remain fairly high for the remainder of the year. Demand for steel continues strong in both the United States and Canada because steel users have continued to meet record levels of production and are expected to replenish depleted inventories. Canadian export orders have also been rising. Altogether, steel exports so far this year account for about 10 per cent of total production compared with 7 per cent for the same period last year.

Expansion of plant facilities is also planned by the steel companies. The Algoma Steel Corporation of Sault Ste. Marie recently announced that it was selling part of its holdings in Canada Steamship Lines to help pay for a \$27 million expansion in its flat rolled steel facilities. As a result, output of the Algoma plant is expected to increase by 25 per cent.

Productive capacity in the aluminum industry was extended by a new factory at Kingston. The Aluminum Company of Canada announced the opening of a \$12 million aluminum sheet plant which became part of a three-part complex and will produce about 25,000 tons of cold rolled sheet aluminum annually. This could be increased to an annual production of about 200,000 tons if a hot rolling mill and cold rolling facilities were expanded. It is the largest plant of its kind in Canada.

The performance of the construction industry on a national basis is rather better than expected. For the first five months, total contracts awarded were about 12 per cent higher than in the corresponding period last year. Most of the increases were in the Maritime and Western

provinces. In Ontario, contracts awarded in the first five months of this year were up 3.8 per cent. Business, industrial and engineering contracts in the first four months of this year began to slacken from the peak reached in December last year but in May improved again. Housing contracts on the other hand were rather buoyant for the first three months but dropped noticeably in April and May. After a wave of apartment building in recent years, builders are now finding them less attractive as investments. Last year in the Metropolitan Toronto area apartment vacancy rates were more than 7 per cent. In April, approvals for apartment construction in the Toronto suburbs were down by about 30 per cent from April 1962. Permits for detached and semi-detached single-family houses, on the other hand, were about 51 per cent higher than in April last year. On balance, the construction industry in the Metropolitan Toronto area will continue to be strengthened by the work on the east-west subway and the Gardiner Expressway.

Employment in the province has been growing steadily as economic conditions continue to improve. In May however, both the labour force and employment expanded at about the same rate, so that the ratio of unemployed persons to the labour force remained at a steady 3.8 per cent. This compares with a somewhat deteriorated rate of 5.8 per cent for Canada as a whole. Total employment for Canada fell while the labour force remained unchanged. (Ratios have been seasonally adjusted.)

Consumer demand remains a strong feature in the Canadian economy, backed by rising employment and a steady high level of income. Automobile sales continue to be a major consumer item and have provided a lift to Ontario's automobile manufacturers and other ancillary industries such as the rubber and tire industry, fabrics and glass industries. Although there was a decline in total car sales in March for the first time since last September, the principal reason was a substantial decline in sales of overseas cars. In April, with the removal of the import surcharges, European cars were selling better in some centres but it is too early to tell how much of their original market will be regained. Sales of Canadian and U.S. cars remained very high — up 14 per cent for the first quarter over the same period last year. In many Canadian cities new car buyers have had to wait from three to ten weeks for delivery of a popular model.

Improving economic conditions in the United States are also bound to provide some stimulus to our economy. The slow-down last fall was more marked in the U.S. economy than it was here, but business optimism is now widespread with improved conditions. In April, the index of total industrial production rose nearly two points from the previous month's peak to an all-time high. Expenditures for new plant and equipment rose, new construction was strong, manufacturers' new orders increased and personal income reached a record high. Steel production and automobile output were also strong factors in the U.S. economy, but there is some expectation that steel output will decline in July.

Canadian exports for the first four months of this year rose by 8.6 per cent. Sales to the United States which accounted for more than 56 per cent of total exports increased by 4.3 per cent over the same four months last year. The rise in exports to practically all other areas was considerably higher than to the United States.

In the first quarter, most of the leading commodity exports advanced over the corresponding period last year, but those that declined probably affected Ontario the most. These were newsprint, nickel, uranium and aircraft. Aircraft exports, however, are highly volatile and such erratic and very expensive, large-item shipments cannot easily be compared from one period to another. Uranium exports have been declining for some time now and will not recover until long-term demand rises. Somewhat the same situation is occurring for nickel exports, but the decline in newsprint exports, due to the newspaper strikes in New York and Cleveland, actually affected Ontario producers much less than other provinces. Most of the export gains for the first quarter occurred in natural gas, aluminum, copper, lumber, wheat, fish, wood-pulp and petroleum.

Here in Ontario some recent export orders of importance include a Brazilian order for 56 diesel locomotives worth \$9.5 million; a \$1.9 million New Zealand government railway order and a third possible order from the Federated Railways of Brazil worth \$3.7 million. All of the orders will be filled by General Motors Diesel Ltd. of London. Export orders for 1964 model cars are also being taken by American Motors (Canada) Ltd. This subsidiary is handling the bulk of North American exports to Common-

wealth countries. The export program was begun nearly five months ago and already more than 150 fully-assembled cars have been sold to Great Britain alone. By the end of 1963 this company expects to have sold about 500 cars to the U.K.

In summary, the Ontario economy at the present time is moving ahead slowly and major

sources of strength remain in the steel and automobile industries. In the accompanying table, 6 of the 9 leading seasonally adjusted indicators are moving upward and the trends of 6 out of the 12 selected indicators shown in the charts are moving upward. Unemployment is steady but at a reasonably low level.

PORTABLE PENSIONS – THE ONTARIO APPROACH

JOHN BURKUS

Economics Branch

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

On April 26th, third and final reading was given by the Legislature to Bill 110 – An Act to provide for the Extension, Improvement and Solvency of Pension Plans and for the Portability of Pension Benefits. The Pension Benefits Act is the culmination of three years of intensive study by the Ontario Committee on Portable Pensions. During that time a number of reports and drafts of the Bill were prepared and distributed to representatives of business, labour, government, insurers, trustees, pension plan administrators and interested private citizens. Subsequently, public and private hearings were held to discuss the various drafts of the Bill and the provisional regulations under it.

The Committee's terms of reference are in effect embodied in the full title of the Act. In addition the Committee was asked to determine whether the barriers to the employment of the older worker resulting from certain provisions in private pension plans could be reduced.

The main requirement of the Act is that all employers with 15 or more employees in Ontario must establish by January 1, 1965 at least a standard or minimum plan. If such an employer has in force at the present time a pension plan then it must be amended to comply with the provisions of the Act. If benefits in excess of the standard (supplementary) are provided, the vesting – rights of employees to contributions by employers – and cash withdrawal rules respecting such benefits are less strict than those applicable to the standard portion.

The Committee agreed during the initial stages of its deliberations that the basic Old Age

Security and Old Age Assistance programs were both desirable and necessary and that private, or employer, pension plans provided a valuable addition to the basic public program. Income derived from private pension plans enabled those who had retired to attain a standard of living closer akin to that enjoyed prior to retirement. It was also recognized that for many individuals an annuity from such a pension plan was the only form of cash income on retirement.

The Committee's goal was to recommend means by which the full potential of private pension plans could be realized. It found that the potential coverage and size of benefits was not being achieved because of a number of restrictions in private plans, particularly those relating to eligibility and vesting. In drafting its recommendations the Committee had to take great care that it would not impose severe cost burdens on those employers who already had generous pension plans and on those employers who had failed to make any provision for the retirement of their employees. In its recommendations the Committee attempted to ensure that the good points of the basic structure of private pension plans were retained and improvements built on the structure.

The Committee's approach to improving the structure of private pension plans of necessity had to be based on the gradual achievement of long-term goals because private pension plans accumulate funds necessary to pay for an annuity over a long period of time. Therefore, the recommended standards respecting vesting and cash withdrawal could not be fully effective im-

mediately. For this the Act has been criticized because it will not provide the full level of benefits at once.

One of the most important contributions which the Committee made relates to giving recognition to a changed philosophy regarding the purpose of a private pension plan. The Committee felt that a pension plan should not force employees to stay on one job by making it financially disadvantageous for them to change employment. Other employer policies could achieve the same results by less restrictive practices. Moreover, the Committee was of the opinion that a pension plan should do exactly that — provide a pension — and it proposed, therefore, that restrictions should be placed on cash withdrawals on termination of employment or at retirement, although 25% of the supplementary benefits, if any, might be withdrawn in cash. With respect to the standard pension plan no cash withdrawals of employee contributions were provided.

One important condition for portability is that there be early vesting. Vesting of pension benefits is often conditional on an employee completing 15 or 20 years' service with the same employer. If employees withdraw their contributions in cash on termination of employment they usually forfeit whatever vesting there is. Moreover, employees who change jobs as few as two or three times during their working lives often do not complete the service requirements for vesting and therefore may retire with little or no pension from the private sector even though they were members of pension plans throughout their working lives.

These restrictions place real barriers in the way of employees who would otherwise prefer to change their jobs and seek greater opportunities elsewhere. At a time when rapid technological change is everywhere evident it seems obvious that impediments to the mobility of labour should be reduced. It is anticipated that the Act will more readily enable an employee to change employment because of earlier vesting and because of the machinery which will be established to facilitate the transfer of pension credits. The economic result will be a larger positive net contribution to output.

Over the course of time the provisions of the Act will also remove one important impediment to the hiring of older workers. Previously many employers have hesitated to hire an older worker because it was claimed that such an employe

could not readily become a member of a plan. It was argued that the pension which would be provided during the balance of the employee's working life would be too small and that the cost to the employer of providing a reasonable pension would be too great. However, if employees transfer their pension credits with them from previous employers they should be more readily accepted into new plans. The Act also recognizes that costs of some pension plans for older workers can be higher than normal and therefore allows employers to make large deductions for such employees.

The Pension Benefits Act will also have a profound effect on the level of savings in the economy. In 1961 the assets in Canada of trusteed pension plans, life insurance group annuities and Federal Government group annuities were \$6.1 billion. Contributions during that year amounted to \$618 million or about \$49 million more than in 1960. Because of voluntary and compulsory extension of pension plans in Ontario and because of the requirements relating to solvency, it is anticipated that during the next few years the amount of pension contributions will substantially increase.

The type of plan envisaged by the Act is private in nature and funds will be channelled via existing institutions into bonds, mortgages, stocks and other productive investments. To some extent the need for net foreign investment will decline because Canadians will be supplying a greater portion of investment capital.

The Act and regulations were designed to ensure that pension expectations of employees were fully realized. The Committee considered these provisions to be of paramount importance and concluded that service rendered prior to the effective date of the Act be also funded over a reasonable period of time. In the past many employees failed to receive their full pension either because their firm's financial position deteriorated or because the firm was sold to new management which did not assume pension obligations for past service. Draft regulations provided that standard and supplementary benefits be fully funded for all service rendered after January 1, 1965. If a plan was in existence prior to 1965, it must be fully funded with respect to past service over a period not exceeding 25 years. This provision and the regulations respecting the investments of pension funds are

extremely important in order that both those employees who terminate employment prior to retirement and those who remain until retirement receive equitable treatment. If no such provision were made, departing employees who took their full pension credit with them could place the whole fund in jeopardy.

The cost of the standard pension plan is modest and will be in the order of 2% of payroll. With respect to supplementary benefits, a number of plans will be faced with additional costs because of the requirements respecting earlier vesting. However, any increase will only occur gradually after 1965 and will depend, to a large extent, on the size, age distribution, sex and level of wages of the work force. Perhaps the greatest increase in costs will result from the standards respecting solvency, especially in those cases where plans are now funded either terminally or are on a pay-as-you-go basis.

With respect to the matter of coverage, *Pension Plans, Non Financial Statistics* — a recent D.B.S. publication, indicated that in 1960 slightly over half the 8,920 pension plans surveyed in Canada were in Ontario. It is estimated that somewhat less than half of the 2,672,724 employees included in this survey would be employed in firms having pension plans in Ontario. This publication also indicates that about 18 per cent of those employees working in firms with a pension plan either did not elect to be members or were excluded on the grounds of age or sex. As a result of the Pension Benefits Act many of these employees will become members.

While it is true that the Bill will not provide universal coverage, because of the mandatory group size of 15 employees, it will extend coverage to about 65 per cent of the employees in the Province. In manufacturing, for example, about 90 per cent of the employees will be covered by the provisions of the Act but in the service industries and retail trades the percentage of coverage will be less because of the existence of many small firms.

The Committee was of the opinion that for the present, the mandatory group size should not be reduced in these areas because of the large number of plans that would have to be registered in proportion to the number of additional employees that would be covered. For example, in manufacturing, retail trade, wholesale trade and services, the number of plans

would increase by over 120 per cent if the mandatory group size were reduced from 15 to 5, but the number of employees covered would increase by slightly less than 12 per cent.

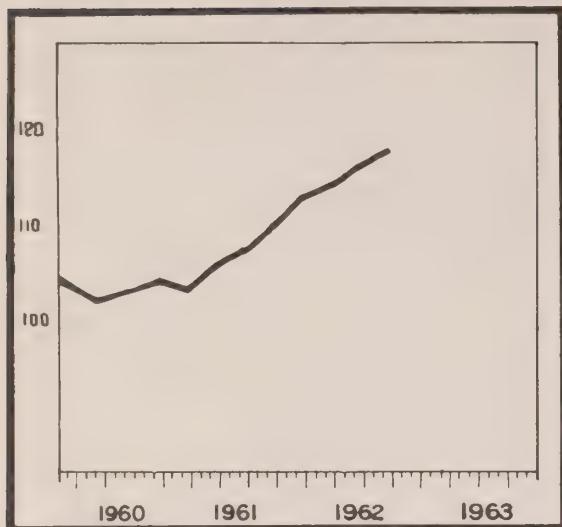
Another reason for not requiring compulsory coverage in the below 15 group, stems from the belief that competitive factors in the labour market will ensure that firms in the non-mandatory groups will in the course of time voluntarily establish a pension plan. It was recognized that the level of benefits in the minimum standard plan are at present exceeded by most established plans, but at the same time some consideration must be given to those employers who may not be in a strong enough financial position to bear heavy additional costs. For this reason vesting of supplementary benefits is not required as early as for the standard plan. In due course employers may voluntarily adopt vesting standards for supplementary benefits which are the same as those prescribed for the standard plan.

The Act is particularly suited for the Ontario environment because a larger portion of the labour force is engaged in the non-agricultural sector. The necessary administrative talent is also readily available and will facilitate the orderly establishment and registration of pension plans. Moreover, the plan has the advantage that funds from the government, except for some initial administrative expenses, will not be required. After the Pension Commission is established it is anticipated that the cost of administration can be offset from fees that will be charged each plan.

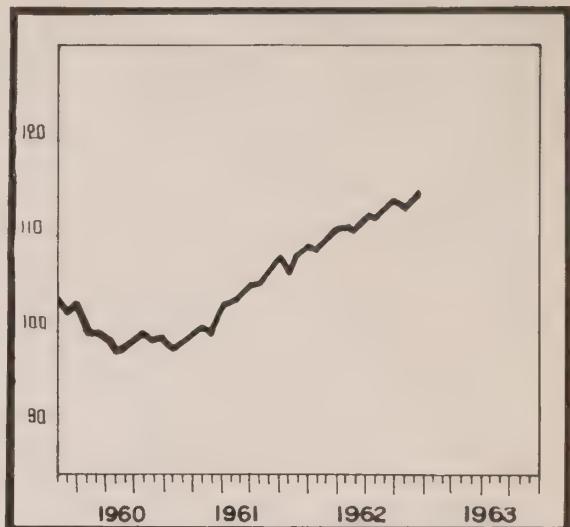
While the Pension Benefits Act, of necessity, extends coverage only to employees in Ontario, there has been some indication that a number of other provinces would be prepared to enact similar legislation. If this were done the need for uniformity of standards cannot be over-emphasized. The Act represents a pioneer effort in attempting to bring some degree of uniformity to the diversity of rules in private pension plans. The flexibility of private plans with respect to the level of benefits, type of pension and manner of payment will still be retained. Employers and their employees will continue to design specific plans to best suit their needs. The main difference is that throughout all plans will run a common socially desirable thread based on greater coverage of employees and earlier vesting to provide larger benefits on retirement.

ECONOMIC INDICATORS—SEASONALLY ADJUSTED

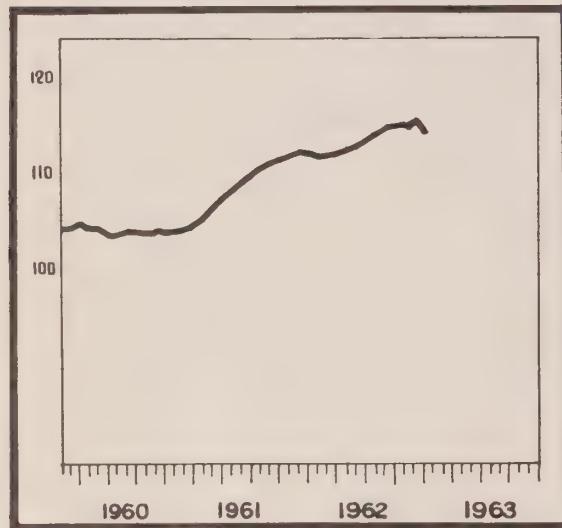
1959 = 100



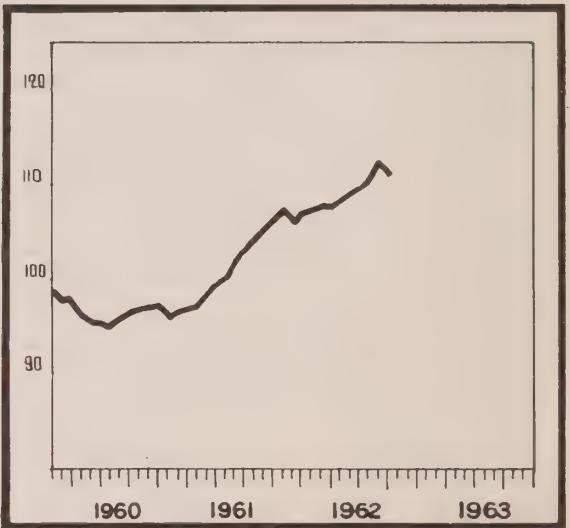
• GROSS NATIONAL PRODUCT (CANADA)



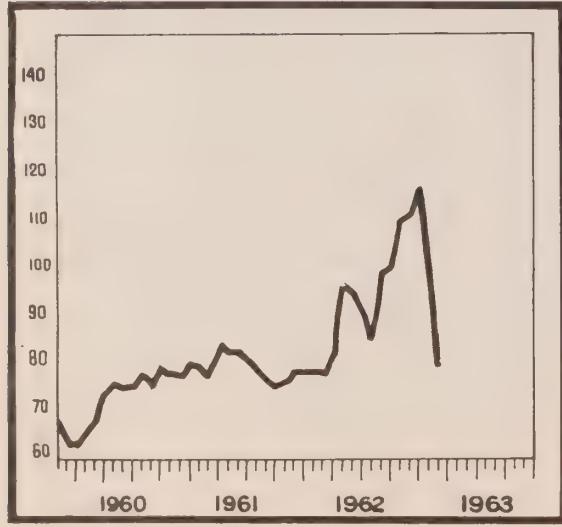
• INDEX MANUFACTURING PRODUCTION (CANADA)



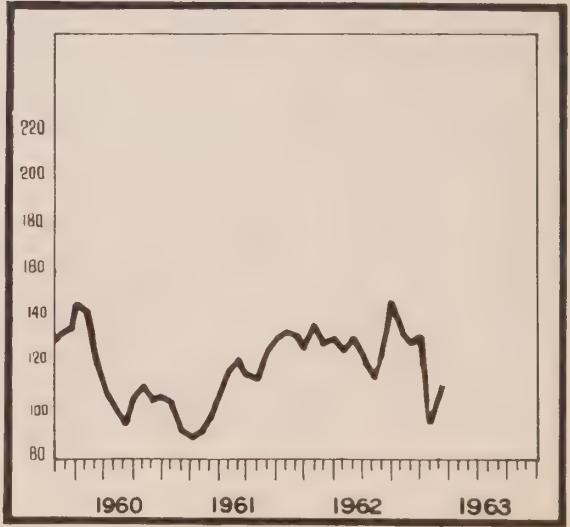
• POWER CONSUMPTION (ONTARIO)



• NEW ORDERS IN MANUFACTURING (CANADA)

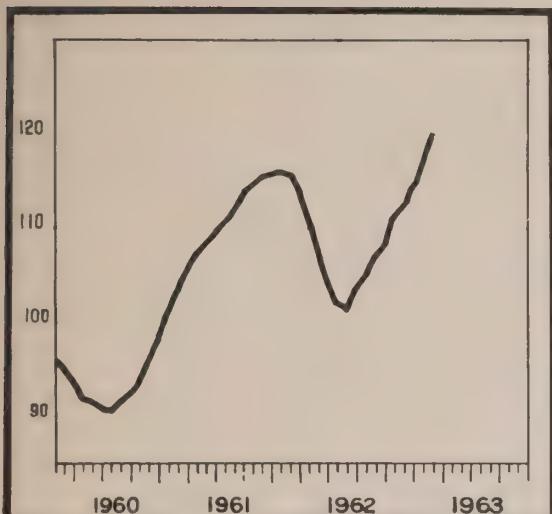


• HOUSING CONTRACTS (ONTARIO)

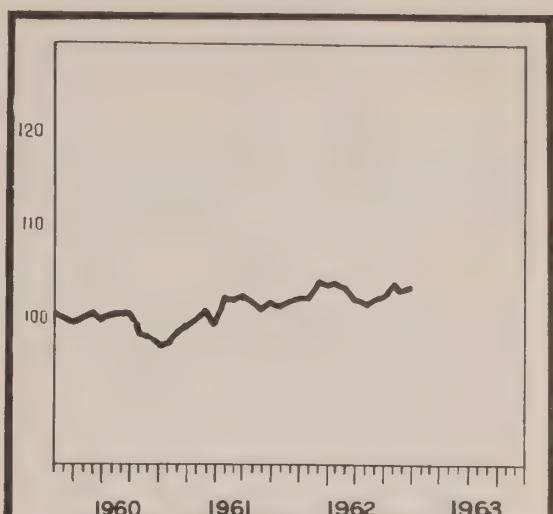


• BUSINESS, INDUSTRIAL & ENGINEERING CONTRACTS (ONTARIO)

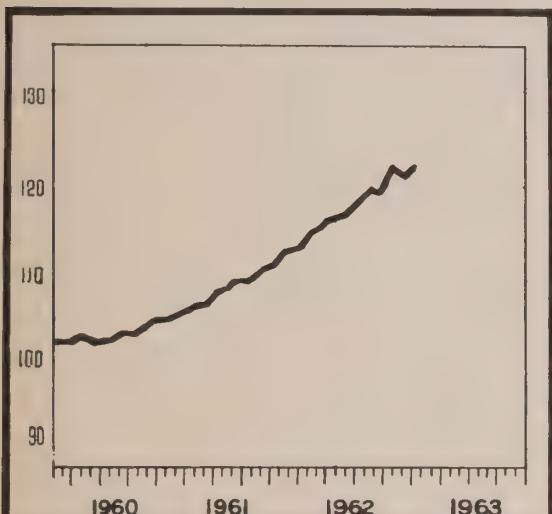
ECONOMIC INDICATORS-SEASONALLY ADJUSTED
1959 = 100



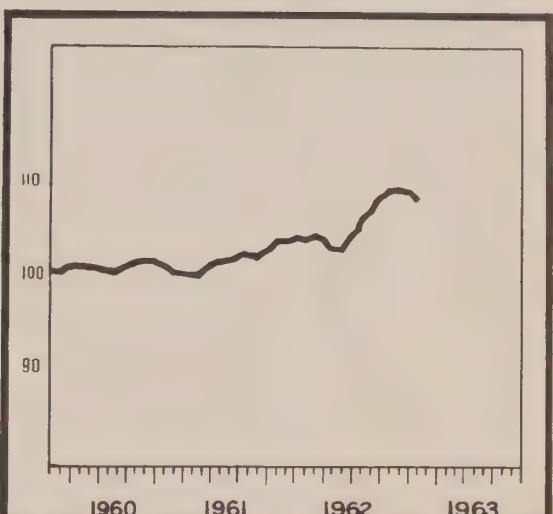
• 20 INDUSTRIAL STOCKS (T.S.E.)



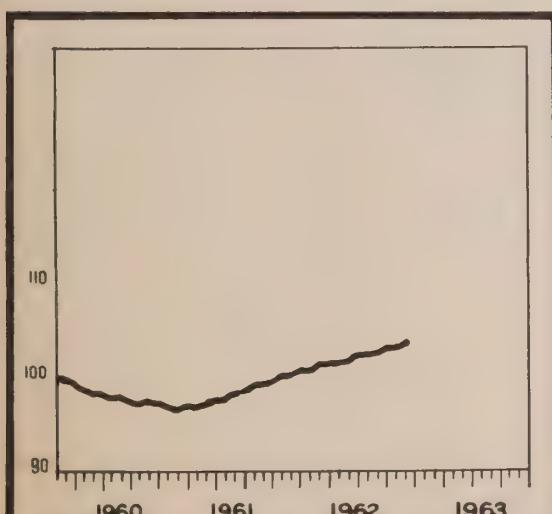
• PRICES, INDUSTRIAL MATERIALS (CANADA)



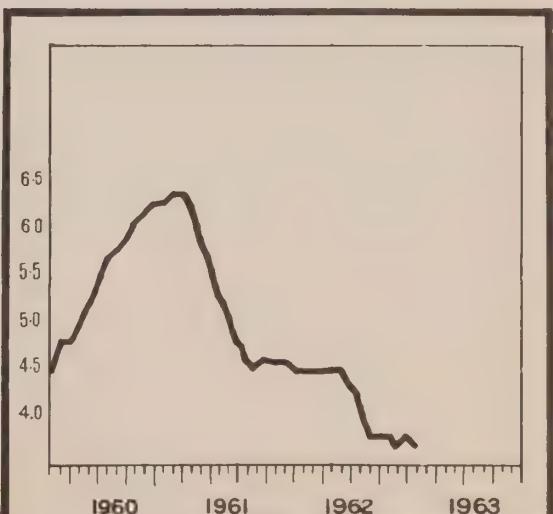
• LABOUR INCOME (ONTARIO)



• RETAIL SALES (ONTARIO)



• INDUSTRIAL EMPLOYMENT (ONTARIO)



• UNEMPLOYMENT RATE (ONTARIO)
(PERCENT OF LABOUR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(* Figures for Canada)

	1962						1963								
	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May
LEADING INDICATORS															
Average Weekly Hours Worked in Manufacturing	(No.)	41.0	40.9	40.9	40.9	40.9	40.9	41.0	40.7	40.7	40.5	41.0	41.1	42.6	43.8
T.S.E. Industrial Stock Index	1934=100	602.1	586.2	569.3	553.5	540.2	538.5	549.4	557.4	567.4	577.4	589.3	600.2	613.1	626.6
Business Failures - Number		73	77	81	82	81	83	83	85	86	86	83	81	76	80
Business Failures - Liabilities	\$ M	3,760	4,992	5,531	6,002	6,487	6,119	5,538	5,739	5,293	4,182	3,694	3,618	3,293	3,759
New Orders in Manufacturing*	\$ M	2,126	2,136	2,142	2,141	2,154	2,167	2,182	2,194	2,233	2,206	2,233	2,206	2,233	2,275
New Dwelling Unit Starts	(No.)	2,763	2,838	3,074	3,083	2,921	2,878	2,797	2,783	2,875	2,651	3,438	4,74	48.2	50.8
Housing Contracts	\$ M	33.5	33.5	33.5	34.9	41.8	41.3	39.6	36.8	42.9	43.4	47.4	47.4	41.9	35.1
Business, Industrial and Engineering Contracts	\$ M	80.1	86.3	81.8	82.8	79.1	83.5	76.8	73.4	78.8	92.2	84.7	81.7	83.1	59.2
Money Supply*	\$ M	15,138	15,321	15,561	15,556	15,382	15,001	14,983	15,113	15,210	15,297	15,391	15,579	15,592	67.0
COINCIDENTAL AND LAGGING INDICATORS															
Gross National Product*	\$ M	39,543													
Total Industrial Production*	1949=100	183.9	184.0	186.1	186.3	186.7	188.7	188.8	189.1	189.6	189.7	189.4	191.2	194.3	
Total Manufacturing		162.5	162.3	164.3	165.8	166.1	165.8	167.6	167.3	168.3	168.9	169.9	169.5	172.3	
Non-Durables		164.8	163.9	165.4	166.7	165.7	164.9	165.7	165.4	165.4	167.4	165.9	167.5	172.7	
Durables		159.8	160.4	162.9	164.8	166.6	166.9	166.9	170.2	171.6	172.8	172.1	172.0	171.8	
Mining		287.4	290.7	291.0	281.5	282.7	299.9	290.6	296.2	291.9	283.6	281.1	291.7	299.9	
Electric Power and Gas Utilities		335.2	333.9	341.7	337.6	340.5	350.4	339.4	340.7	341.9	334.4	341.7	353.4	352.9	
Cheques Cashed in Clearing Centres	\$ M	2,774	2,805	2,841	2,840	2,858	2,861	2,908	2,922	2,953	3,024	3,069	3,199	563	
Retail Trade	\$ M	542	542	540	536	536	543	552	552	556	563	570	569	568	
Labour Income	\$ M	702	705	711	712	715	717	720	726	732	730	748	744	749	
Labour Force	000's	2,390	2,406	2,415	2,424	2,427	2,428	2,419	2,416	2,409	2,415	2,420	2,422	2,429	
Employed	000's	2,283	2,298	2,307	2,316	2,318	2,319	2,316	2,318	2,317	2,324	2,329	2,332	2,339	
Unemployed	000's	107	108	108	108	109	109	103	103	98	92	91	90	90	
Unemployed as a % of Labour Force	%	4.5	4.5	4.5	4.5	4.5	4.5	4.3	4.1	3.8	3.8	3.8	3.7	3.7	
Industrial Employment	1949=100	121.9	122.2	122.6	122.9	123.1	123.3	123.7	123.9	124.2	124.6	124.8	125.1		
Average Hourly Earnings in Manufacturing	\$	1.96	1.96	1.97	1.97	1.97	1.97	1.98	1.99	2.00	2.01	2.01	2.01		
Power Consumption	MWh	3,324	3,315	3,311	3,318	3,330	3,340	3,361	3,377	3,399	3,408	3,407	3,417	3,388	
New Dwelling Unit Completions	(No.)	3,120	2,897	3,100	2,929	3,188	3,178	3,150	2,916	2,872	2,659	2,226			
ECONOMIC INDICATORS, NOT SEASONALLY ADJUSTED*															
Dividend Payments	1956=100	115.0	115.2	115.0	115.7	116.2	116.2	118.5	119.1	119.3	120.2	120.5	120.8	118.6	
Prices, Industrial Materials	1935=100	247.1	247.6	251.3	251.8	251.2	249.5	246.7	245.1	247.7	245.3	250.0	250.3		
Domestic Exports	\$ M	455.6	458.8	458.7	459.7	456.8	454.1	479.6	462.6	486.1	493.6	500.6	421.6	487.7	
Imports for Consumption	\$ M	530.2	497.8	528.8	529.0	521.5	521.5	468.9	504.8	437.5	437.5	437.5	437.5		
Foreign Exchange Reserves	\$ M-U.S.	1,709	1,595	1,493	1,809	2,114	2,445	2,614	2,608	2,539	2,663	2,663	2,663	2,671	

THE ONTARIO ECONOMY

At the present time the economic picture of Ontario has been clouded by events of the past few weeks. Nevertheless the economy generally is marked by a relatively high level of activity. Business conditions remain buoyant, but were jarred temporarily by the introduction of the Federal budget. Despite the reaction of the stock market to the budget, the T.S.E. index advanced by the end of June to within one point of the record achieved early in 1962, on a seasonally adjusted basis. Other disruptions such as the recent wave of strikes and threats of strikes have created an uneasy mood in an otherwise moderately active summer.

Taking into consideration the prospect for a near record grain crop, the national accounts indicate that the rate of advance (1.1 per cent, seasonally adjusted) of the gross national product in the first quarter of this year was greater than for the previous two quarters. (A short note at the conclusion of this article places our present position in the business cycle in historical perspective).

Although the gross national product in the first quarter advanced more than 1 per cent over the final quarter of last year, a large part of the increase was made up of price increases, leaving a much smaller gain in real output. Nevertheless, a firm base was provided the economy as consumer expenditures for durable goods, particularly automobiles, continued at the high rate of the previous quarter. These purchases were further augmented by a high level of government purchases, particularly at the provincial and municipal levels. On the supply side, the total volume of manufacturing production also increased by 1 per cent over the previous quarter's level but a significant change in output trends occurred. The seasonally adjusted rate of durable goods production was only slightly above the previous quarter after a very rapid advance in the fourth quarter. Non-durable goods production, on the other hand, which advanced only marginally last year, increased by 2 per cent in the first quarter, compared with the last quarter of 1962. This was led by a 4 per cent advance in both the food and chemical sectors.

Employment increased somewhat but the hours of work in manufacturing remained unchanged. There was an unusually large increase in labour income reflecting, in part, retroactive payments to Federal Government employees. These additions to labour income helped to provide some backing to the strong demand for consumer purchases. Even so, purchases were higher than incomes and savings were reduced.

Ontario's private, non-agricultural gross domestic product is estimated to have increased 1.5 per cent in the first quarter on a seasonally adjusted basis.

This is considerably greater than the growth rate for Canada as a whole. The main sources of growth were public utilities (up 7.2%), construction (up 2.9%), services (up 2.7%) and wholesale and retail trade (up 2.4%).

Industrial production in Canada is continuing to expand and reached a new high in April for the third successive month, after remaining almost constant for six months. April also appeared to show a renewal of the most significant trends of 1962. The growth rate in non-durable goods production in April eased a little, while durable goods production expanded to one of the highest levels on record.

Softening activity in the non-durable manufacturing sector was fairly widespread but the rise in durable goods production was led by advances in the iron and steel industries and automobile manufacturing. These latter industries represent two of the most important segments of the Ontario economy.

Mining production, although of fractional importance when compared with durable and non-durable manufacturing, also advanced in April. The most important aspect was the extraordinary rise in iron production which, in April, was 13 per cent higher than in March. This was the third successive jump and marks a greatly accelerated rate of activity in the iron ore mines of northern Ontario and the Quebec-Labrador range.

Employment in the province has continued to expand, on a seasonally adjusted basis, with continued expansion in industrial production. The labour force has also been expanding at the same rate so that in May those persons remaining out of work were about the same as in the previous month. The seasonally adjusted rate of unemployment in May, as a per cent of the labour force, was 3.8, compared with a rate of 5.7 per cent for Canada as a whole. Ontario's rate has been stable for 7 months.

Steady employment and the continuance of a high level of average hourly earnings in manufacturing have maintained incomes at relatively high levels, providing a firm backing for continued strength in consumer demand. Retail trade, after a sharp rise in the last four months of 1962, has been maintained at a high level so far this year. This increase in sales represents a real gain in trade volume since the index of consumer prices has been inching up only slightly during the past year.

Of special interest to Ontario is the continued high level of motor vehicle sales throughout Canada. Production in the first half of this year was 24 per cent higher than in the same six months last year, and sales are keeping up to or ahead of deliveries.

Total construction contracts in Canada for the first six months of this year were 3.6 per cent higher than in the corresponding period last year.

Important items were large hydro contracts in British Columbia and Quebec. In Ontario, total contract awards were down 6.3 per cent for the six-month period. The most important program affecting Ontario recently has been the Steel Company of Canada's announcement that it will spend approximately \$185 million on expansion between the years 1963 and 1965. Some of this new expansion will take place in Alberta and Quebec, but the largest portion of it will be carried out in this province. The present high level of steel consumption, plus the company's plans to make Canada more self-sufficient in steel products, has spurred this huge expansion program.

Since the Federal budget provides the fiscal environment of the Ontario economy its importance warrants a summary of its main provisions for the months ahead.

Briefly it contains four key policies. The first is the extension of the sales tax in a graduated sequence to building materials and to productive machinery and equipment in industries other than agriculture and fishing. The sales tax rates are 4 per cent until April 1, 1964, when the rate rises to 8 per cent, and 11 per cent after December 31, 1964. It is estimated that the cost of construction projects will rise by 1.4 per cent in the first period, another 1.4 per cent in the second period and an additional 1.1 per cent after December 31, 1964. Construction projects that are exempt include schools, universities and other educational institutions, municipal sewerage and drainage systems, bridges, hospitals, old age homes, and drain tiles for agriculture purposes. The impact of sales tax on the building of N.H.A. housing has been nullified by increasing the proportion of the price that may be covered by a mortgage, thereby reducing the down-payment in fact to a level below that before the introduction of the sales tax. Furthermore, owing to the reduction in the interest rate on the loan, the monthly carrying charge has been raised only slightly, despite the increase in the full price (as a result of the tax) and the reduction in the down payment.

The second policy is the offer of a two-year tax holiday to new industries that are established in slow growth areas during the next two years, plus the right to write off their fixed capital formation during the period from June 13, 1963 to June 13, 1965, at accelerated rates following the tax holiday: machinery and equipment at 50 per cent straight (2 years) instead of 20 per cent diminishing balance, and plant at 20 per cent straight line (5 years) instead of 5 per cent diminishing balance.

Thirdly, throughout Canada machinery and equipment expenditures during the next two years may be written off at 50 per cent straight line instead of 20 per cent diminishing balance, provided a private firm has at least 25 per cent Canadian beneficial ownership and a firm listed on the stock exchange has less than 75 per cent of its stock owned by a non-resident and those associated with him.

Fourthly, the 15 per cent withholding tax on interest paid abroad to financial institutions that are non-taxable in their country of residence has been cancelled, and differential withholding taxes have been introduced on dividends paid abroad. Corporations that are listed on the stock exchange and have less than 75 per cent of their stock owned by a non-resident and those associated with him, will pay 10 per cent rather than 15 per cent on dividends distributed to non-residents. For other companies (those with a higher proportion of their stock owned by a non-resident and his associates) the withholding tax on dividends distributed to non-residents will rise from 15 per cent to 20 per cent on January 1, 1965. If, before January 1967, one of the latter companies adjusts its ownership distribution to meet the qualification for the 10 per cent rate, it will be refunded the amount of withholding tax it has paid in excess of 10 per cent since June 13, 1963. In addition, henceforth, management fees paid to non-residents will be charged a 15 per cent withholding tax.

Canadian trade so far this year has shown remarkable improvement over the corresponding period last year. For the first five months, merchandise exports were up 8.5 per cent while imports were actually down 1.1 per cent. In large measure the decline in imports was due to the import surcharges, removed only after the first three months of this year, and the devalued Canadian dollar. On a seasonally adjusted basis, moreover, imports in the months ahead are likely to be well above those at the end of last year which were sharply reduced as a result of the surcharges.

A great deal of the improvement in the balance of trade was due to improved trading conditions with the United States. For the first five months, merchandise exports to the United States were up 4.4 per cent while imports were down 2.0 per cent, compared with the same period last year. In Ontario one of the largest recent export orders to the United States was a \$30 million contract given to the Westinghouse Electric Corporation to supply two turbine generators for a power plant being built in Pennsylvania. This flow of exports is likely to continue into the near future as economic activity in the United States remains buoyant. The U.S. index of industrial production reached a new peak in May. This was the fourth consecutive monthly rise for the index, after remaining almost constant for six months. Employment has also been improving. In May non-farm jobs rose by double the usual amount for the month.

In summary, economic conditions in Ontario are moderately buoyant. Weak elements in the construction industry are more than offset by high levels of production, especially in the automobile, iron and steel industries, and a high level of consumer purchases.

Special Note:

**CANADA'S
PRESENT INDUSTRIAL CYCLE
IN PERSPECTIVE**

The present cycle in industrial production began in January 1960 when the previous cycle reached a new peak. The recession reached a trough in January 1961, and recovery was achieved in June 1961. Since then (for the past 22 months) industrial production has been expanding, and the latest data show that in April of this year output had reached a level 12.8 per cent above the previous peak.

The following table shows how it compares to past cycles in terms of duration of its various phases.

TABLE I
Months Duration of Cyclical Phases in Industrial Production Since 1919

Cycle	Recession			Expansion	Total Cycle
	Peak to Trough	Trough to Recovery	Peak to Recovery		
1919-1924	18	14	32	20	52
1924-1929	5	13	18	43	61
1929-1937	46	46	92	9	101
1937-1944	13	8	21	55	76
1944-1953	25	42	67	47	114
1953-1957	10	8	18	26	44
1957-1960	9	13	22	12	34
Average Cycle	18	21	39	30	69
1960 to latest available					
(April 1963)	12	5	17	22	39

The table shows that the recession (17 months) was shorter than any known one on record. The initial decline (peak to trough) was briefer than most, and the recovery required only 5 months. The expansion, now having lasted 22 months, is shorter (so far) than the average for the previous seven cycles.

The following table shows how the present cycle compares with previous ones in terms of compound annual percentage rates of change through the various cyclical phases.

TABLE II
Compound Annual Percentage Rates of Change Through the Cyclical Phases

Cycle	Recession		Expansion	Growth Rate
	Peak to Trough	Trough to Recovery		
1919-1924	-17.9	34.5	9.8	1.7
1924-1929	-9.7	19.5	10.6	8.1
1929-1937	-10.7	18.6	13.7	1.2
1937-1944	-7.3	13.0	13.6	9.7
1944-1953	-11.8	6.1	6.8	2.8
1953-1957	-4.1	9.1	8.3	5.5
1957-1960	-8.8	7.2	7.1	2.7
1960 to latest available				
(April 1963)	-4.1	12.4	6.4	3.8

The table indicates that the decline was one of the most moderate on record, and the recovery was the fastest of any since the second world war. On the other hand, the expansion has been the slowest on record, and the growth rate for the entire cycle is somewhat less than average. The growth rate, in fact, is peculiar in one respect. The growth rate column shows alternating fast and slow cycles. Since the previous (1957-1960) cycle was a slow one, it might be expected, in view of the record, that the present cycle would be fast — yet it is considerably slower than one would expect from the record of alternations.

Thus, in terms of growth rates, the present industrial cycle is an improvement over the previous one but it is still below the long-term average. On the other hand, the duration of the expansion phase is nearly twice that of the previous cycle, but it is still less than the average for past cycles.

Perspective can be gained regarding the recent cycles by putting them in long-term context. The following table shows that growth was faster in the decade following the first world war (1919-1929) than in the decade following the second (1946-1956), but for the succeeding six-year periods we have done much better than a generation ago.

Compound Annual Rates of Trend for Canada's Industrial Production Volume

Post World War One		Post World War Two	
Period	%	Period	%
1919-1929	6.7	1946-1956	5.9
1929-1935	-1.1	1956-1962	3.1
1919-1935	2.6	1946-1962	4.9

Thus, Canada has been meeting the challenge of boom and bust instability with some success. As a consequence attention has now been concentrated on the problem of accelerating the rate of growth.

POPULATION GROWTH IN ONTARIO

HELEN MADGE
Economics Branch

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Population growth has always been a matter of great concern in Canada, where the cycles of growth have been stronger than in some of the older countries in Europe. The demand for both social capital and private capital investment in Canada is dependent to a large extent on the size of the population. However, mistakes in assumptions about future population can be very costly in either holding back development or in adding too great a fixed cost for the population to support. We have produced such irrationalities as two trans-continental railway lines to serve a population which is still less than 19 million. On the other hand, we have suffered from inadequate water and sewage facilities in many parts of this country and shortage of school teachers and university professors because the population grew much more rapidly than our city fathers anticipated and our educational authorities could provide for. For these reasons we have to look very carefully at the extent and nature of our population growth.

In the past our plans have usually been based on the assumption that current trends would continue. Future changes in those trends are likely to become more apparent if we assess the individual factors affecting population. In this article we have tried to point out some of the changing demographic trends and point out the probable effects of alterations in those trends.

Our trends of birth and death rates have been similar to those of the industrial countries of the world. We have usually had slightly higher birth rates than have most European countries but when their fertility rates were declining so were ours. The major difference in demographic trends is that on the whole we have been a net recipient of immigrants and most European countries are net losers. Prior to World War II general trends were fairly stable in the western world. While there were some very optimistic estimates of Canada's future size during the booming immigration years prior to World War I, these were very short-lived. From the twenties on we looked forward to a gradual population growth for some years, followed by a gradual loss in population as declining fertility rates and an aging population, more than offset the fall in death rates.

The forties brought a distinct change and for the past 15 years we have been in a strong upward cycle. Birth rates gradually began to climb in most of the Western industrialized countries. Women, whose emancipation had been won by the feminists of the beginning of the century, began to wonder whether it was worth the price they were paying.

These western women were pleased with their new found freedom but they did not want to lose their roles as wives and mothers. The improvements in living conditions — prepared foods, household appliances, and increased commercial household services left those who were staying at home with more time on their hands. The home and school associations, studies of infant care and child psychology became the outlet for the housewives' energies and thoughts. They, in short, made a career of studying and providing for their children and large families again became socially acceptable.

High birth rates and large families in earlier years were restricted to the rural areas, to people of particular ethnic and religious affiliation, and to the lower income groups. In the past fifteen years, the changing attitude toward the family has made large families respectable, and in the suburbs they have become a symbol of middle class solidity. Thus, the increase in the birth rates of the post-world war II period has been evident throughout the urban areas and in virtually all social strata. There has been a decline in the number of very large families of 10 or more children but in all families of from about three to six children there has been an increased proportion.

In this atmosphere, we have had rapidly increasing birth rates in Ontario as in the rest of the Western world. As an illustration, the rate of births to women in the main child bearing ages (20-34) rose from 107.7 per thousand in 1937 (the lowest level) to 192.7 per thousand in 1961. This sharp upturn in birth rates has brought us a disproportionately young population so that at the present time nearly one-third of our population is under 15 years of age.

There is now some evidence of a levelling of birth rates. In recent years, in Ontario the rate per thousand population has actually gone down. While this decline is partly because there are relatively few people in young family formation ages, there has also been some evidence of a levelling-off of birth rates among women over 35 years of age and there has been a slackening in the increase in rates among women under 35. This is partly a general sociological change but there also seems to be some shift in patterns of living. In some of our larger cities there is a drift back to city dwelling from the suburbs. If there was any great trend back into the city centre by young families, it would probably be accompanied by a decline in birth rates and some reduction in family size. The higher level of unemployment particularly among the new entrants to the work force may also be having a depressing

effect on early marriage and on birth rates, although there is still no clear evidence of this.

Death rates are expected to continue to decline in almost all age groups with improvements in nutrition, sanitation and health care. The major improvement in the past has been in infant deaths. Canada still has a fairly high rate, hence further improvements can be anticipated there. The only sector for which mortality rates have not improved is in the males over 50. A break-through in the prevention or treatment of heart disease or cancer or both would make a startling improvement in the death rate for this group but until such a break-through, little improvement can be foreseen.

In Ontario, immigration has been a major source of population growth. At the time of the 1961 census more than one person in every five in Ontario had come from outside Canada and almost one in ten from other provinces in Canada. Thus only 69 per cent of the Ontario population were born in this province and only 58 per cent of the people in Metropolitan Toronto were born in Ontario.

The climax of the post-war immigration came in 1956 and 1957 when a number of circumstances converged to give an impetus to the move to Ontario. Canada was prosperous and such major developments as the completion of the seaway, the oil and uranium developments were keeping us in the forefront as a rapidly growing industrial nation. The re-introduction of restrictions on oil and gas in the United Kingdom and in other parts of Europe as a result of the Suez crisis gave forebodings of permanent shortages such as had been experienced during the war. The Hungarian uprising also stirred up European unrest. The prosperity and relative ease of living in Canada was a great attraction at that time. Thus in 1957 there were more immigrants than in any single year since 1913 and for Ontario it was the greatest immigration year of this century.

The prospects for massive future immigration are practically nil. The present state of world tension leaves Canada as vulnerable to the effects of war as Europe was in the 19th and the beginning of the 20th century. In addition, northern and central Europe have experienced rapid industrial expansion in the past few years, while the economies of North America have shown relatively much slower growth. There is far less incentive to leave Europe as earnings differentials have narrowed. The change in attitude is illustrated in the change in areas from which our immigration is coming. In the past year or two there has been a much greater proportion of immigrants from the south of Italy where unemployment levels are still high and wage rates relatively low. On the whole, the Italian immigrants have less training than those from Germany, Austria, Holland, the United Kingdom, etc. and with fairly high continuing levels of unemployment here, our absorptive capacity for unskilled workers is low and is not likely to improve much in the next few years.

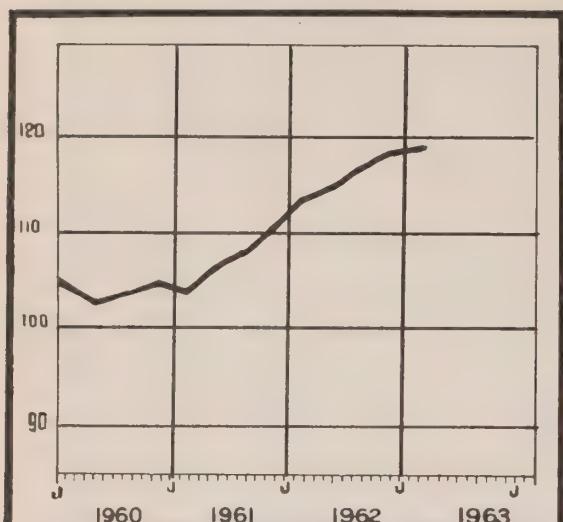
For this reason we cannot expect to attract anywhere near the numbers of immigrants in the immediate future that we have in the past fifteen years. The long-term average net gain through migration is 30,000 per year to Ontario. This we can probably consider a maximum long-term rate but the net gain may be as little as 10,000 per year.

The prospects for our future population growth are for a continuing rapid growth in relation to our long-term trends but for a slower rate of growth than that which we experienced between 1946 and 1960. At the present time, natural increase is adding more than 100,000 per year to the province's population, representing a slight slowdown in the past couple of years. Natural increase is likely to continue at about this level for the next year or two as the numbers of women moving into the child bearing ages will about balance the numbers growing out of it. At the present time the women born during the low-birth-rate-years of the thirties and early forties are in the main child-bearing ages (20-35) but as the war-time and post-war babies reach marriageable age, we will again see a sharp rise in the number of births in this province.

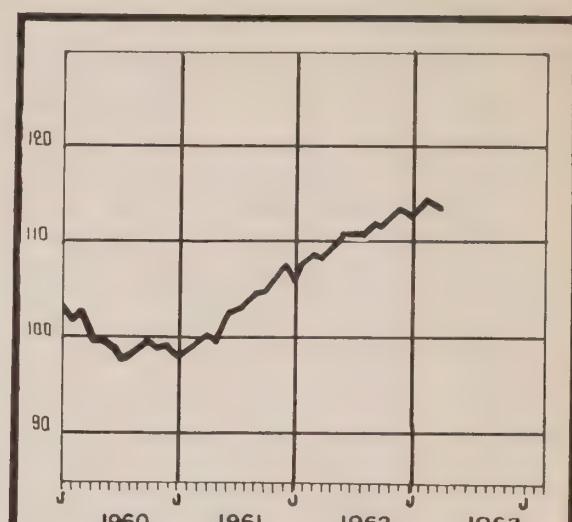
Because of the irregularities in the age distribution of our population, we can expect continuing irregular spurts in our population growth. Heavy immigration of young adults in recent years has, to some extent, evened out the population distribution but if the immigration flow from Europe continues at the low level of the past year or two we cannot expect any further evening of the population curve for some time.

In view of the above trends in the factors affecting population we have based population projections for Ontario on the assumption that there will be a slight further increase in birth rates among the women of the younger child-bearing ages, either constant or declining birth rates among women in the older child-bearing ages, continuing reductions in death rates and a decline in immigration rates. The sum of these changes in trends give us a projected population of close to 10 million by 1986 if we assume that net migration to the Province is zero. On the other hand, if net migration should approximate the rate of the past half century — 30,000 per year — we would have a population of 11.2 million by 1986. This shows not too much over-all variation from past growth rates. In the period 1936 to 1961 Ontario's population increased by 75 per cent. Our projections indicate a variation of from 60 to 80 per cent increase in the next twenty-five years depending upon migration rates from abroad and from the rest of Canada. While these projections give us a picture of the implications of current growth rates, we must keep in mind the fact that social and economic factors can alter these trends. We must plan our present programmes to allow for such growth but we must also be alert to possible changes in these trends and be able to adjust our decisions to fit new facts.

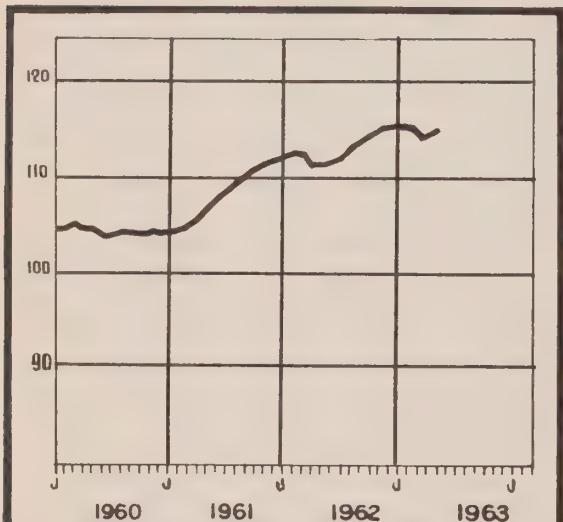
ECONOMIC INDICATORS - SEASONALLY ADJUSTED
1959 = 100



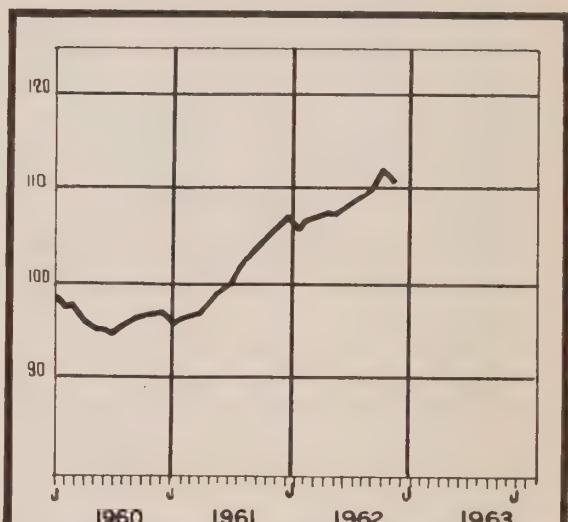
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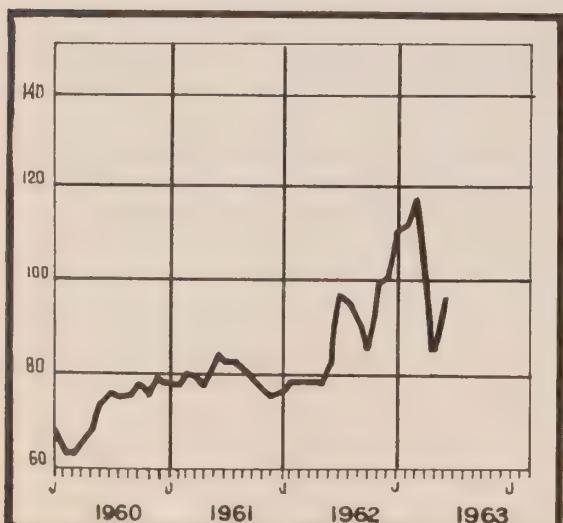
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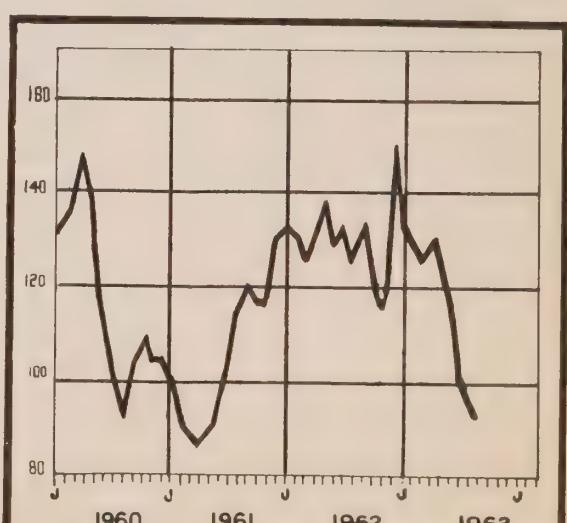
• POWER CONSUMPTION (ONTARIO)



• NEW ORDERS IN MANUFACTURING (CANADA)

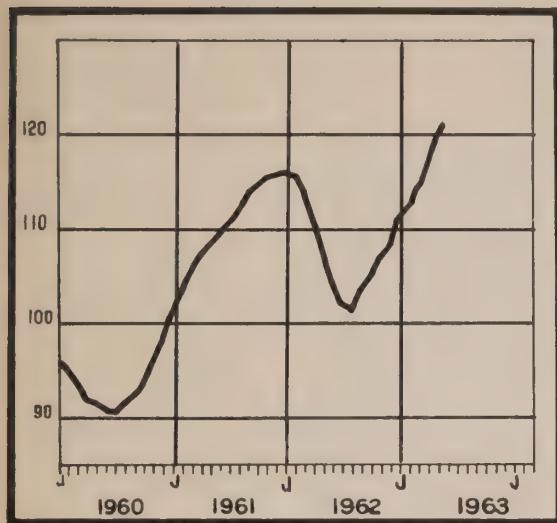


• HOUSING CONTRACTS (ONTARIO)

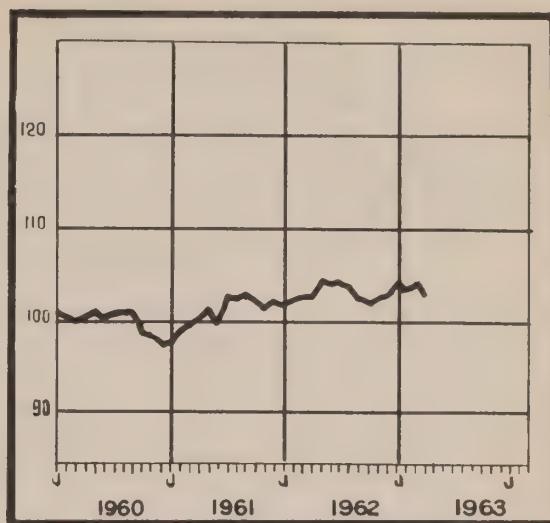


• BUSINESS, INDUSTRIAL & ENGINEERING CONTRACTS (ONTARIO)

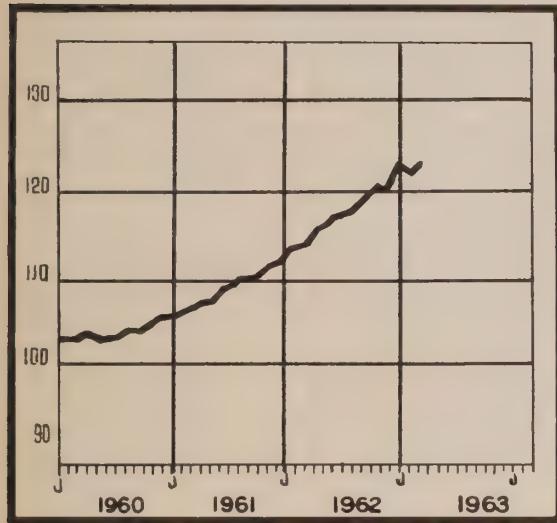
ECONOMIC INDICATORS - SEASONALLY ADJUSTED
1959 = 100



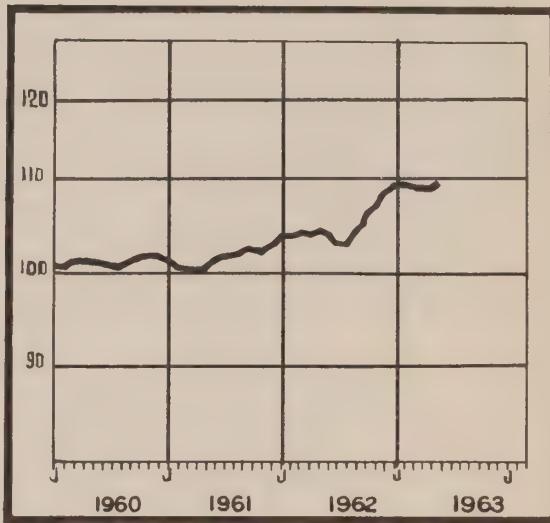
• 20 INDUSTRIAL STOCKS (T.S.E.)



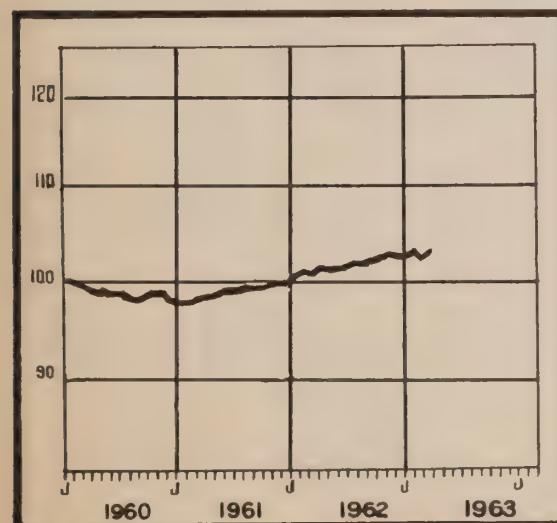
• PRICES, INDUSTRIAL MATERIALS (CANADA)



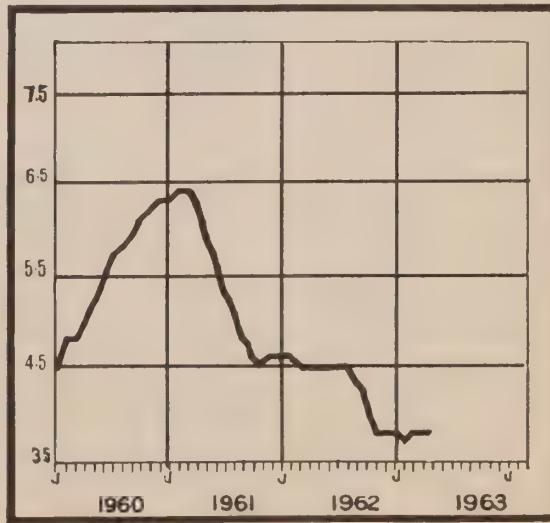
• LABOUR INCOME (ONTARIO)



• RETAIL SALES (ONTARIO)



• INDUSTRIAL EMPLOYMENT (ONTARIO)



• UNEMPLOYMENT RATE (ONTARIO)
(PERCENT OF LABOUR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(* Figures for Canada)

		1962						1963								
		April	May	June	July	August	September	October	November	December	January	February	March	April	May	June
Average Weekly Hours Worked In	(No.)	40.9	40.9	40.9	40.9	40.9	41.0	40.7	40.7	40.7	41.0	41.0	41.0	41.0	41.0	
Manufacturing	\$ Million	586.2	569.3	553.5	540.2	538.5	549.4	557.4	567.4	577.4	589.3	600.2	613.1	626.6	637.8	
T.S.E. Industrial Stock Index	1934=100	77	81	82	82	81	83	85	86	86	83	81	85	86	86	
Business Failures - Number		4,992	5,531	6,002	6,487	6,119	5,538	5,730	5,298	4,182	3,694	3,613	3,293	3,759	111	
Business Failures - Liabilities	\$ Million	2,226	2,443	2,240	2,249	2,259	2,267	2,262	2,296	2,330	2,306	2,304	2,290	2,314		
New Orders in Manufacturing*	\$ Million	2,838	3,074	3,088	2,921	2,878	2,797	2,783	2,875	2,839	2,912	2,316	48.2	50.8	45.5	
New Dwelling Unit Starts	(No.)	33.5	33.5	34.9	41.8	41.3	39.6	36.8	42.9	43.4	47.4			37.0	41.3	
Housing Contracts	\$ Million															
Business, Industrial and Engineering Contracts	\$ Million	86.3	81.8	82.8	79.1	83.5	76.8	73.4	78.8	92.2	84.7	81.7	83.1	75.3	63.9	
Money Supply*	\$ Million	15,306	15,561	15,540	15,382	15,031	14,998	15,143	15,210	15,267	15,391	15,563	15,576	15,629	59.6	
<u>COINCIDENTAL AND LAGGING INDICATORS</u>														15,755		
Gross National Product*	\$ Million															
Total Industrial Production*	1949=100	184.0	186.1	186.3	186.7	188.7	188.8	189.1	189.6	189.7	189.4	191.1	193.9	194.2		
Total Manufacturing	\$ Million	162.3	164.3	165.8	166.1	165.8	167.6	167.3	168.3	169.9	168.8	169.4	172.0	171.6		
Non-Durables	\$ Million	163.9	165.4	166.7	165.7	164.9	165.7	164.9	167.4	167.4	167.3	167.3	172.7	170.5		
Durables	\$ Million	160.4	162.9	164.8	166.6	166.9	169.9	170.2	171.6	172.8	172.1	171.9	171.1	172.8		
Mining		290.7	291.0	281.5	282.7	299.9	290.6	296.2	291.9	283.6	281.1	291.5	298.7	301.6		
Electric Power and Gas Utilities		333.9	341.7	337.6	340.5	350.4	339.4	340.7	341.9	334.4	351.7	353.6	351.3	359.1		
Cheques Cashed in Clearing Centres	\$ Million	2,805	2,841	2,840	2,858	2,861	2,908	2,922	2,953	3,024	3,085	2,976	2,957	2,518		
Retail Trade	\$ Million	541	542	540	536	536	543	552	556	563	570	567	568	570		
Labour Income	\$ Million	705	711	712	715	717	720	726	732	730	748	744	756			
Labour Force	000's	2,406	2,415	2,424	2,427	2,428	2,419	2,416	2,409	2,415	2,420	2,422	2,426	2,452		
Employed	000's	2,298	2,307	2,316	2,318	2,319	2,316	2,319	2,317	2,324	2,329	2,332	2,335	2,351		
Unemployed	000's	108	108	108	109	109	103	98	92	91	91	90	91	101	120	
Unemployed as a % of Labour Force	%	4.5	4.5	4.5	4.5	4.5	4.5	4.1	4.1	3.8	3.8	3.7	3.8	4.0	4.8	
Industrial Employment	1949=100	122.2	122.6	122.9	123.1	123.3	123.7	123.9	124.2	124.6	125.0	125.2	125.2	125.9		
Average Hourly Earnings In Manufacturing	\$	1.96	1.97	1.97	1.97	1.98	1.99	2.00	2.01	2.01	2.01	2.01	2.02	2.02		
Power Consumption	MWh	3,315	3,311	3,330	3,348	3,340	3,361	3,377	3,399	3,408	3,407	3,407	3,395	3,400		
New Dwelling Unit Completions	(No.)	2,897	3,100	2,929	3,188	3,178	3,150	2,916	2,872	2,794	2,796	2,796	2,990			
<u>ECONOMIC INDICATORS, NOT SEASONALLY ADJUSTED*</u>																
Dividend Payments	\$ Million	1956=100	115.2	115.2	115.0	115.7	116.2	116.4	117.5	119.1	119.1	120.2	120.5	120.8	118.6	
Prices, Industrial Materials	\$ Million	1935-39=100	247.6	251.8	251.3	249.5	246.7	245.1	246.6	247.7	250.8	250.0	250.3	247.6		
Domestic Exports	\$ Million		448.8	597.7	530.7	546.8	540.1	479.6	602.6	586.1	493.6	424.6	487.7	514.2	647.9	
Imports for Consumption	\$ Million		497.8	650.2	528.8	559.0	521.5	468.9	568.7	555.3	437.5	504.8	431.3	2,594		
Foreign Exchange Reserves	\$ Million U.S.		1,595	1,493	1,889	2,114	2,445	2,614	2,608	2,539	2,663	2,663	2,600	2,671		

THE ONTARIO ECONOMY

The Ontario economy at the present time, although not marked by boom conditions, remains relatively active. The usual summer slowness in some sectors of the economy, resulting largely from plant vacation shutdowns and the model change-over in the automobile industry has been offset by expanded outdoor activity, particularly in the construction and tourist industries. This year in addition, economic activity has been strengthened by a sustained high level of consumer hard goods purchases. Business prospects, as indicated by new orders in manufacturing, still seem fairly bright. In May, the seasonally adjusted value of new orders reached a new high, indicating an upward trend in this sector.

Production throughout Canada was still high according to the latest data available. In May the index of total industrial production, seasonally adjusted, reached another peak after advancing steadily for about seven months. The latest monthly advance resulted from stepped-up activity in almost all productive sectors — the most important being in the durable goods sector.

In Ontario, major industrial producers have maintained a high level of activity. However, there is some indication that automobile production may be slowing down, as seasonally adjusted figures for June dipped below the previous months' levels. Nevertheless, activity in the automobile industry so far this year has been anything but dull and advance estimates indicate that 1963 production will exceed the record level of last year. Before the shut-down for model change-overs, production for the calendar year was 20 per cent above that for the same period last year. Auto producers in the United States have experienced similar record runs and already the total number of 1963 model cars produced has exceeded the 1955 record. Here in Canada, Chrysler has had the best year in terms of annual increases in production but General Motors continues to dominate the market. Although foreign car sales had improved their position in the market by the end of July, it is unlikely they will regain the levels enjoyed two or three years ago because depreciation of the Canadian dollar has given domestic producers a definite edge on prices in the automobile market.

Steel production also continues high, despite the declining levels of production in the United States. Normally, the trends in Canadian steel production follow those in the United States, but sales of Canadian steel remain high. The reason is found in the success which Canadian steel firms have had in the past few years in capturing a larger share of the domestic market and, at the same time, finding ex-

panding markets abroad. The improved position of Canadian steel producers is attributed to increased efficiency, growing Canadian markets which allow more diversification of product and the devaluation of the Canadian dollar.

Running parallel with the expanding market for Canadian steel, is the increased intake of domestic ore by Canadian mills. This augurs well for Ontario iron ore mines which ship nearly all of their production to domestic mills. In the first five months of this year the percentage of Canadian iron ore used by domestic steel producers rose from 36.4 to 39.4 per cent. The United States is still the major supplier of iron ore — accounting at present for about 57 per cent of the total requirements.

Brisk consumer demand and buoyant industrial production has had a salutary effect on employment. During the last eight months, seasonally adjusted employment in Ontario has been growing steadily and reached a new peak in July. Since the spring of the year however, the size of the labour force has been expanding even faster as a larger than usual number of students sought jobs this summer. In July the employment picture was greatly improved and Ontario's seasonally adjusted rate of unemployment at 4.3 per cent compared favourably with a 6.0 per cent rate for all of Canada.

Favourable production and employment levels have also maintained income at a high level. For the month of May, seasonally adjusted labour income was stabilized at a record level and provided a strong backing to the continued high level of consumer purchases. In addition to the usual purchases for summer activities, furniture sales in some Ontario centres were brisk and department stores sales for the first six months were at record highs. Ontario department stores sales were 6.2 per cent higher than in the same period last year. Total retail trade in the province was maintained at a record level in May.

The cost of living is showing signs of rising again. In Ottawa the consumer price index rose by 0.5 per cent in June over the previous month and in Toronto it rose by 0.7 per cent.

President Kennedy's aims to cut back some of the U.S. investment abroad, together with the Canadian government's intention to encourage domestic investment in Canadian capital development has tended to place some pressure on the Canadian money market. The recent rise in the Bank of Canada's prime lending rate to 4 per cent from 3½ per cent is indicative of this pressure. However, it was

felt in Toronto that the bond market had adjusted itself fairly easily to these pressures and that the Bank of Canada's new rate would not affect lending to any sizeable degree. It is still too early to tell what the long-term implications of the aims of both Canada and the United States are going to be, but if realized, some tightening in the money market is bound to result. At the present time the policies of either country are not likely to affect the level of capital investment too much.

It is encouraging to see that earlier investment intentions for the full year have been revised upwards. These new estimates were made however, before the presentation of the federal budget and President Kennedy's announcements. Total investment expenditures in Canada are now expected to be about 7 per cent higher than they were last year. Most of the upward revision came from increased anticipated expenditures in the business and housing sectors.

In Ontario the value of business, industrial and engineering contracts, on a seasonally adjusted basis, touched a new high in July after a considerable jump from the previous month, and accounted for all of the advance in total contracts awarded for the province. One interesting award is a one million dollar construction contract to begin soon for a shopping centre on No. 2 highway between Whitby and Oshawa for Cambridge Leaseholds Ltd.

Housing contracts in Ontario were further depressed, indicating a downward trend in this sector. In June, the number of new dwelling unit starts were down from the previous four months but preliminary unadjusted figures for July do hold out some hope for improvement in the sector. Compared with a year ago, new housing unit starts for July in Ontario were up 30 per cent in all centres of 5,000 and over.

Canadian trade so far this year is encouraging. For the first six months, exports exceeded imports and the resulting surplus was larger than the surplus recorded for the whole of 1962. It is unlikely however, that exports in the remaining six months of this year will match those in the same period last year. At the end of 1962 they rose considerably, with the aid of a devalued Canadian dollar. Imports, on the other hand, are not expected to be as depressed as last year when they were curtailed by the imposition of import surcharges. The resultant trade balance in the last six months then, is not likely to be as favourable as in the first. Already in June, preliminary figures indicated that exports were two per cent lower than in June last year, while imports rose by 1.7 per

cent. There was also a deficit balance of trade in June, for the second time this year. In Ontario there have been four recent export orders of considerable magnitude. The first two are for McNamara Corporation Ltd., consisting of a \$17.5 million share in a huge joint contract to build a dam and powerhouse on the Columbia River for the U.S. Army Corps of Engineers, and a \$3.8 million contract to build a 7½ mile stretch of four-lane divided asphalt highway near Bakersfield, California, for the California Division of Highways. The other two are contracts for John Inglis Co. Ltd., a \$2.5 million contract to build 4 turbines for a power project in Oklahoma and a \$6.5 million order for 6 turbines from the U.S. Army Corps of Engineers for a power plant on the Missouri River in South Dakota.

The ability of McNamara and John Inglis to compete in international markets is illustrated by the fact that McNamara at present is engaged in 16 projects, valued at \$36 million, on its own, in five foreign countries in the Caribbean and the United States, and four joint projects in the United States, worth more than \$14 million, bringing a grand total of contracts outside of Canada in excess of \$50 million. John Inglis Co. Ltd. is also completing a pulp and paper mill in Chile begun about two years ago. This contract is worth \$11 million.

The economic picture for the United States is much the same as for Canada, so that little additional stimulus can be expected from that quarter on Ontario's activities at the present time. In June industrial production in the United States continued to move ahead, despite a 5 per cent decline in steel ingot production. Second quarter national accounts revealed that the U.S. gross national product was at a new high and that profits also advanced, reflecting a continued high level of business activity. For July however, early figures indicated that there may be a levelling off in total production. Nevertheless, seasonally adjusted unemployment in July dropped to 5.6 per cent from 5.7 per cent in June, as employment rose to a record level without a corresponding gain in the labour force.

In summary, economic activity in Ontario remains buoyant. Housing is still depressed however, and additional softness is appearing in the automobile and export sectors. Consumer demand remains strong and employment is high.

The summary may be further substantiated by the charts and table shown at the back of the publication. Nine of the 12 general economic indicators charted are pointing upwards, while only four of the nine leading indicators are on an upward trend.

WHITHER THE TOURIST INDUSTRY

D. R. RICHMOND
Director of Travel Research

DEPARTMENT OF TRAVEL AND PUBLICITY

The importance of tourism to a community or to the Province as a whole is very difficult to measure. Part of the difficulty stems from the fact that very little information exists on the gross sales of the industry, or its contribution to the economy in terms of employment and wages. This lack of data is, however, not the crucial problem. Misunderstanding arises primarily from the failure of the public to recognize the true scope and nature of the industry.

When an individual leaves his home to travel to another community, he becomes a tourist. His purchases are generally classified as accommodation, food and beverages, recreation, transportation and shopping. The tourist dollar is spent on a host of products and services ranging from the rent of the room he stays in to the souvenir gift he brings home. He purchases, while in the community, the products and services of dozens of retail establishments. He provides jobs in the community and tax revenues for government. If he is a foreign tourist, he adds to our reserves of foreign exchange and helps to keep the deficit on our balance of payments down.

Unlike most industries, the tourist industry cannot be singled out for statistical purposes as can a manufacturing industry or a type of retail outlet. The industry, in the broadest sense, encompasses all firms which sell goods or services to the individual consumer. A service station and a department store are just as much a part of the tourist industry as the motel or the roadside diner, and until this fact is generally accepted, the importance of the tourist industry to the economy of a community, region or province will never be fully appreciated.

There is no fundamental difference in the impact on the economy of a region of expenditures by either a foreign or domestic tourist, other than balance of payments considerations. Many people, however, tend to think in terms of foreign tourist expenditures as the measure of the tourist business. This is obviously wrong. While foreign tourism is important to Canada and Ontario, it represents only a fraction of total tourist trade. In Ontario, domestic tourism probably represents two to three times as much business as foreign tourism.

INTERNATIONAL TOURISM

Tourism has become the largest single element of international trade with a total value of close to \$8 billion, a three-fold increase in 10 years. Canada has been a participant in this development. Between 1956 and 1962, Canadian merchandise exports rose by 31 per cent, but receipts from foreign visitors to Canada rose by 65 per cent.

The tourist trade, because of its size and character as a growth industry has become increasingly competitive. Almost every country in the world attempts through both private and public agencies to attract foreign tourists. The major source of tourists in this international trade are residents of Canada and the United States. In 1961, the expenditures of travellers from these two countries accounted for about 40 per cent of total foreign tourism. Travel between Canada and the United States accounted for more than 10 per cent of total international tourism.

These figures are impressive, but they are also misleading. The fact that Canada and Ontario exist as geographical and political entities and are connected by transportation links to other countries does not mean that foreign tourists will automatically visit us. The tourist business, like any other business, must be prepared to promote and sell a marketable product. The fact that goods are available in a store does not mean they will be bought, and the same is true in tourism. While the environmental factors are important, they in themselves will not attract tourists without proper marketing.

In 1961, residents of the United States spent more than \$2.5 billion in countries around the world. Of this amount, about \$440 million was spent in Canada. This is not a figure that should be pointed to with pride. What is not generally realized is that Canada has been losing ground as an area for United States tourist travel. If we had maintained the same relative position in 1961 as we enjoyed in 1952, total receipts from American expenditures in Canada would have been in the neighbourhood of \$800 million, \$360 million more than we actually received.

The situation in 1962 was improved as U.S. travel expenditures in Canada rose sharply to \$510 million. It appears that the downward trend in the Canadian share of United States foreign travel expenditures has been reversed. There is, however, still room for improvement.

Many people try to explain the failure of Canada to maintain its share of United States foreign travel expenditures as the result of rising incomes in the United States. Their argument runs that as incomes increase in the United States, more people can afford to take expensive trips to Europe, Latin America or the Far East. They support this argument by pointing to the same phenomenon in Canadian foreign tourist expenditure patterns. For example, between 1950 and 1962, the expenditures of Canadians in countries other than the United States rose from 15 per cent to 31 per cent of tourist expenditures in all countries.

There is some truth in this proposition, but it ignores several necessary qualifications. Firstly, Canadian foreign travel habits have been influenced by the very heavy immigration into Canada in the post-war period. The pull of the "old country" is much stronger in Canada than it is in the United States because of the higher proportion of first generation families in Canada. Secondly, the income argument fails to take into account the influence of the promotional activities of various foreign countries in both Canada and the United States. The emergence of the Bahamas as a competitor of Florida for winter tourists from Canada and the northern United States is a case in point.

Thirdly, and most important, is that rising income not only allows more people to travel to the far corners of the world, but it also allows an even larger number of people to take vacations and trips beyond their own states, provinces and regions. In other words, affluence can only lead to more international tourist travel between Canada and the United States. More people have more money to spend on travel and recreation. The country, province, state or community that does the most effective job in selling its physical, historical and cultural resources, is going to get more tourist business.

SOCIAL AND ECONOMIC FACTORS AFFECTING TOURISM

The impact of higher incomes on tourism is only one of a series of social and economic changes that are having and will continue to have a profound effect on the whole tourist industry. The travel and recreation industry is just beginning to grow. This is an essential point to grasp at the outset. In the 10 years since 1952 Canadian tourist expenditures on foreign travel have doubled, a growth rate of 7 per cent a year. While there are no figures available on domestic tourism, there is no doubt that it has had a similar rate of growth. The whole economy,

on the other hand, has grown at only 5.75 per cent a year in dollar terms.

The major social and economic trends discernable in our society today reinforce the view that the tourist industry will continue to be a growth sector in the economy. It is instructive to look at some of these key features of our changing society and see how they will affect the tourist industry.

1. Rising Educational Levels.

In today's complex world there is a growing awareness of the need for more advanced and specialized education for the whole labour force and not just the few. Accelerated rates of technological innovation have begun to place a premium on skills and to place more and more emphasis on the educational level, skills and adaptability of the individual worker.

An important by-product of this development will be the intellectual stimulation of the individual and an increased interest in the world around him. Given a heightened curiosity and the economic means, the traveller of tomorrow will be searching for new forms of recreation. Increasing in importance as a motivational factor in his decision to travel will be an interest in the history, traditions and cultural attainments of the region or country he visits. Recent figures available for the United States indicate that over 25 per cent of the college age population attend institutes of higher learning.

There is increasing evidence that attractions geared to historical or cultural themes are of growing importance in tourist development. Canadians and Americans go in growing numbers to visit such historical sites as Williamsburg, Virginia or Upper Canada Village. This is simply illustrative of the impact that the extension of formal education has and will continue to have on tourist travel behaviour.

2. Automation

While rising educational levels affect the type and nature of the attractions which will attract tourists, automation has a direct effect on the volume of tourism. From many points of view, the impact automation will have on our social and economic structure gives rise to apprehension. One thing, however, is clear — automation, defined as the acceleration of technological change, will lead to more leisure time. There is little doubt of the fact that automation will, in all probability, lead to further reductions in the work week and to an increase in vacation periods. The recent steel industry labour contract is an example of this trend.

If these trends continue, the impact on tourism and the tourist industry will be immense. That tourism is bound to expand and expand at unprecedented rates can be taken for granted. The tourist industry, in the broadest sense, is an industry which supplies goods, services and facilities to the indi-

vidual who is consuming leisure time away from home. As the leisure time available to the individual increases, so does the need for new services and new facilities in the tourist industry.

Again it must be emphasized that the mere existence of modern highways, lakes, motels, resorts etc., will not give rise to an expansion of tourist expenditures in any given region or province. An increase in the numbers of people with the money to spend and time to spend it in does not ensure that they will travel or take vacations in any given area. The success or failure of the tourist industry depends on the ability of the industry, associations, regional groups and government at all levels to market the available resources.

3. Urbanization

The third factor that predicates an expansion of tourism is the trend towards urbanization. A concrete example of this trend can be readily found in the Province of Ontario. In 1951, the seven major urban centres in the Province accounted for 47.7 per cent of Ontario's population. In 1961, these same 7 centres contained 51.1 per cent of the Province's total population. This same trend is in evidence in every jurisdiction in North America and the implications on tourism are obvious. The growth of urban population, at a rate faster than total population growth, means that the potential tourist market is expanding faster than the population. As the trend towards urbanization continues, so will the demand for recreational and accommodation facilities in both the rural and urban areas.

ECONOMIC GROWTH AND ECONOMIC DECENTRALIZATION

The three factors listed above, namely educational levels, automation and urbanization, are all related and have a direct bearing on the pattern and nature of economic growth in the Province. Advanced technology requires extensive training and large scale production techniques, and economic centralization into large urban areas has been the result. This, however, can and does have adverse effects on smaller communities which depend for their livelihood on one or two major industrial operations. The problem of economic decentralization thus becomes a two-edged sword. If government policies are adopted to encourage decentralization, this policy may lead to inefficiency, and curtail the rate of growth in the Province as a whole. If government does nothing to arrest the drift of industries into congested urban areas, we can visualize the time when the social overhead costs incurred will outweigh the locational advantages.

As long as communities continue to stress the expansion of their industrial base as the chief measure of their economic growth, the two-way pull between

the advantages of the large urban centre and the desire for economic decentralization will warp planning. The implicit assumption about the desirability for industrial expansion, however, often ignores the real basis of economic growth and leads to an improper allocation of resources. Economic growth is measured in terms of the total income generated in the economy. This income is made up in the form of wages and salaries, profits, dividends, rents etc., that are paid to individuals or businesses. In turn, this money is spent on goods and services creating new jobs and new income. From the community's point of view, it makes no difference where the income is derived. The only point that should be considered is whether the total income of the community is increasing or decreasing.

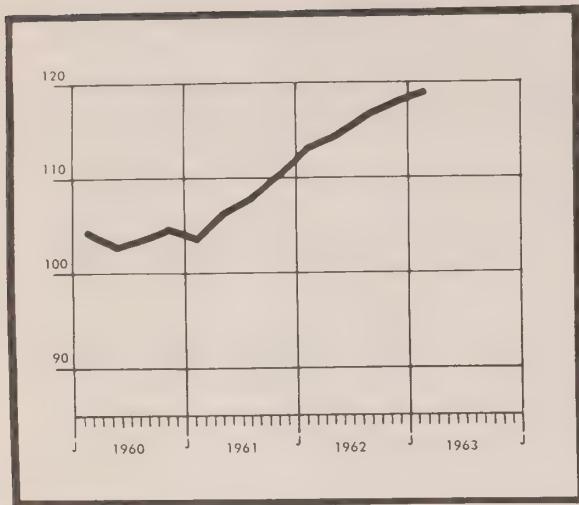
The tourist industry is one industry that almost every community can benefit from. If the earlier assumptions about its potential growth are correct, the community that does a good promotional job and sells its resources will add a vital element to its economy. Economic decentralization should, therefore, be viewed in a broader perspective than has been the case in the past. The encouragement of a vital and expanding tourist industry in our smaller communities will add new incomes to their economy. In turn, increased incomes lead to rising expenditures in the community and the creation of new jobs.

The importance of the tourist industry to employment should not be underestimated. The tourist industry forms an essential part of what is generally termed the service industries. The services, in recent years, have provided the main source of employment to our growing labour force and it is in the services that we will continue to find employment opportunities for the bulk of the young people who will enter the work force.

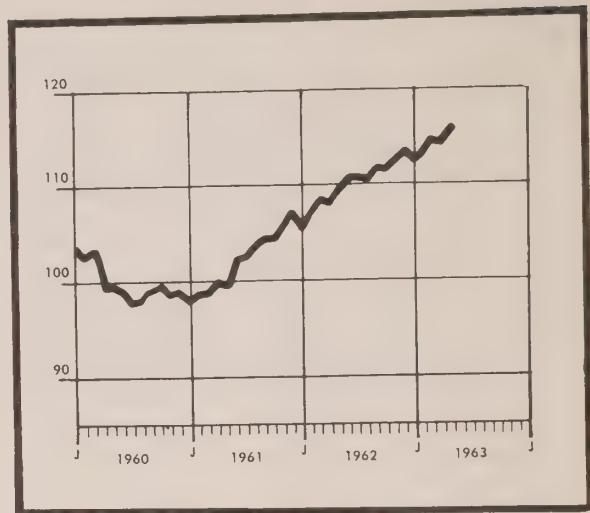
Much has been made of the importance of secondary manufacturing as a source of new jobs. While manufacturing is and will continue to be the heart and basis of the Province's economy, the fact remains that it has declined in importance as a direct employer of labour. If you look to manufacturing as a source for substantial increases in employment you will have to be prepared to run faster and faster just to stay where you are. The facts are clear on this point. Our strong manufacturing sector will lead to the creation of and will support far more jobs in the service sector, than will be created in manufacturing.

If proper recognition is given to the importance of the tourist industry as a growth industry that can be developed by almost every community, the problems associated with economic growth and economic decentralization can be seen from a new perspective. The tourist industry promises the community and the Province more returns faster than any other industry.

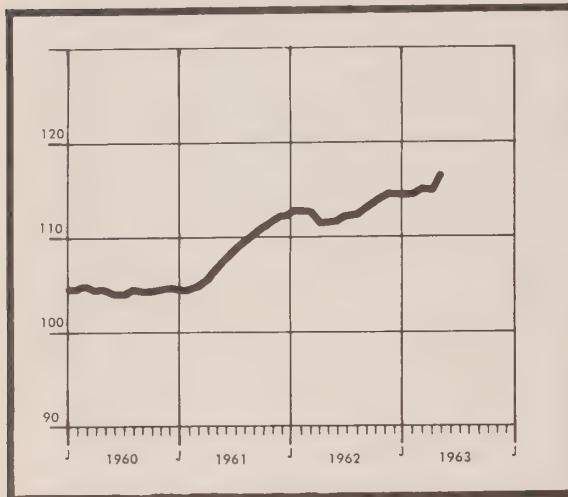
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959=100



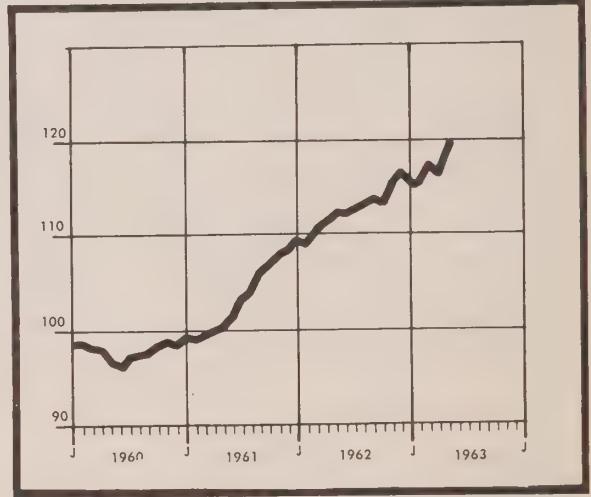
GROSS NATIONAL PRODUCT (CANADA)



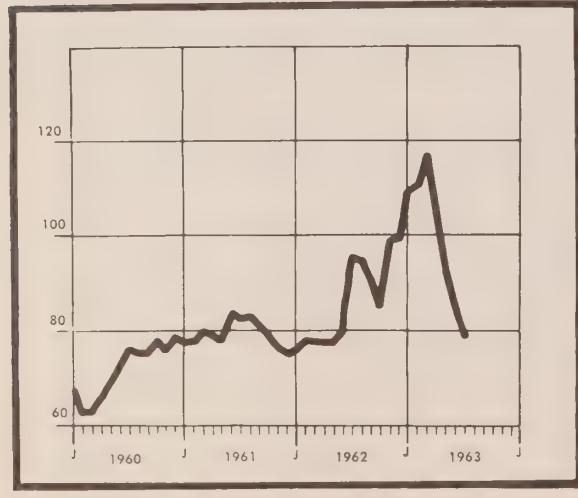
INDEX MANUFACTURING PRODUCTION (CANADA)



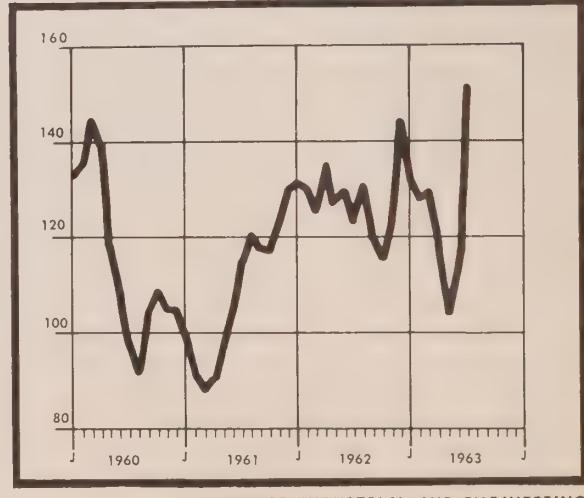
POWER CONSUMPTION (ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

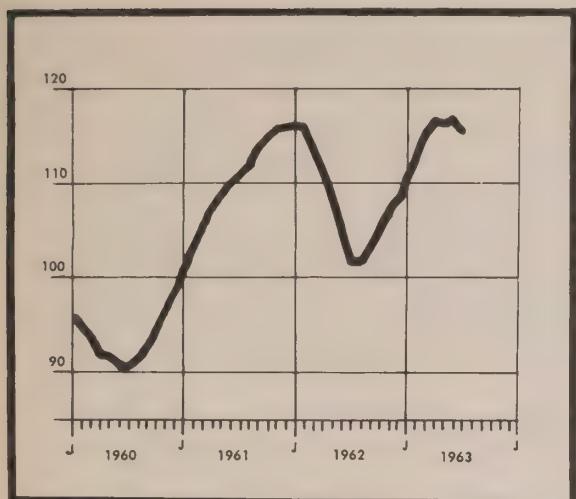


HOUSING CONTRACTS (ONTARIO)

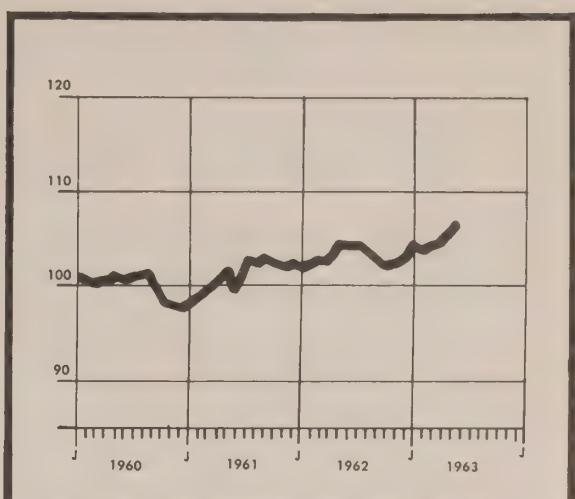


BUSINESS, INDUSTRIAL AND ENGINEERING CONTRACTS (ONTARIO)

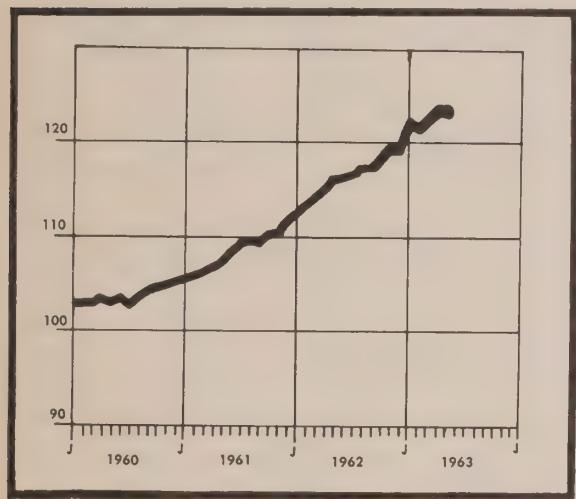
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



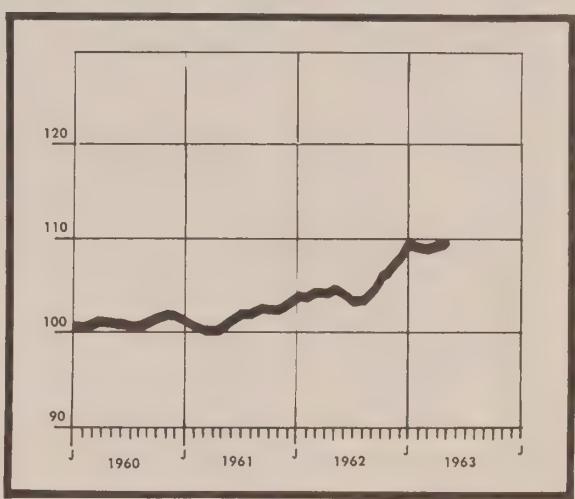
20 INDUSTRIAL STOCKS (T.S.E.)



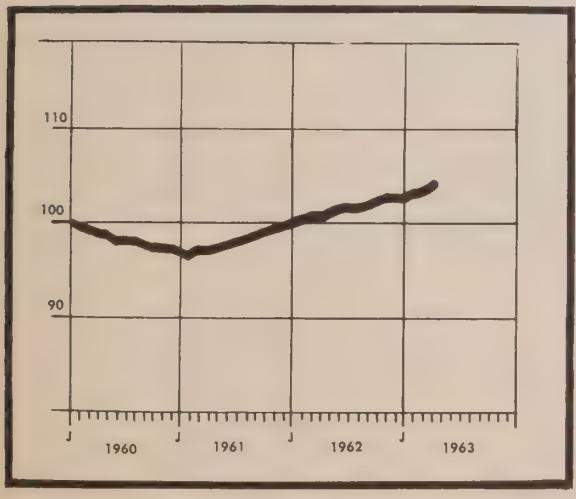
PRICES, INDUSTRIAL MATERIALS (CANADA)



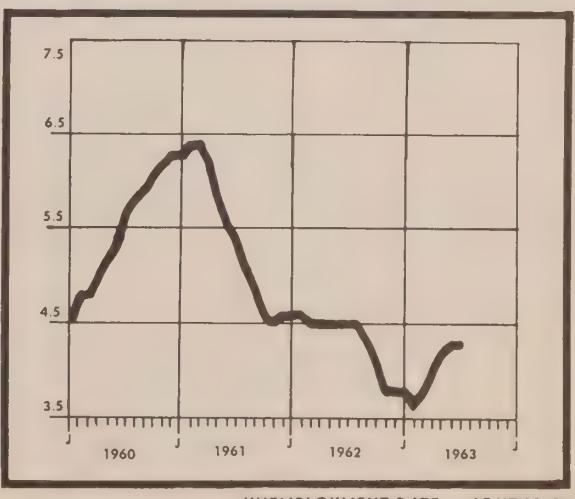
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED
 (* Figures for Canada)

	1962						1963					
	May	June	July	August	September	October	November	December	January	February	March	April
<u>LEADING INDICATORS</u>												
Average Weekly Hours Worked in Manufacturing	40.9	40.9	40.9	40.9	41.0	40.7	40.7	40.7	40.7	41.1	41.1	41.1
T.S.B. Industrial Stock Index	569.3	553.5	540.2	533.5	549.4	557.4	567.4	577.4	539.3	600.2	613.1	617.9
Business Failures - Number	81	82	31	31	33	35	36	83	81	85	88	93
Business Failures - Liabilities	5,531	6,002	6,437	6,119	5,533	5,739	5,298	4,182	3,694	3,618	4,936	3,485
New Orders in Manufacturing*	\$ 0.00	\$ 2,243	\$ 2,240	\$ 2,249	\$ 2,259	\$ 2,267	\$ 2,296	\$ 2,330	\$ 2,306	\$ 2,343	\$ 2,319	\$ 2,395
(No.)	3,312	3,083	2,921	2,876	2,797	2,733	3,015	3,205	3,228	3,605	4,033	3,922
Housing Contracts	\$ 33.5	\$ 34.9	\$ 41.8	\$ 41.3	\$ 39.6	\$ 36.8	\$ 42.9	\$ 43.4	\$ 47.4	\$ 48.2	\$ 50.8	\$ 45.5
Business, Industrial and Engineering Contracts	\$ Million	\$ 81.8	\$ 82.8	\$ 79.1	\$ 83.5	\$ 76.8	\$ 78.8	\$ 92.2	\$ 34.7	\$ 81.7	\$ 83.1	\$ 66.8
Money Supply*	\$ Million	\$ 15,561	\$ 15,540	\$ 15,332	\$ 15,332	\$ 15,031	\$ 14,993	\$ 15,143	\$ 15,210	\$ 15,267	\$ 15,391	\$ 15,563
<u>COINCIDENTAL AND LAGGING INDICATORS</u>												
Gross National Product*	\$ Million	\$ 194.1=100	\$ 190.048	\$ 186.3	\$ 186.7	\$ 188.7	\$ 188.8	\$ 189.8	\$ 189.7	\$ 189.4	\$ 191.1	\$ 194.1
Total Industrial Production*	\$ Million	\$ 164.3	\$ 165.8	\$ 166.1	\$ 165.8	\$ 167.6	\$ 167.3	\$ 168.3	\$ 169.4	\$ 168.8	\$ 169.4	\$ 172.0
Total Manufacturing	\$ Million	\$ 165.4	\$ 166.7	\$ 165.7	\$ 164.9	\$ 165.7	\$ 164.9	\$ 165.4	\$ 167.4	\$ 165.9	\$ 167.3	\$ 172.7
Non-Durables	\$ Million	\$ 164.3	\$ 164.3	\$ 166.6	\$ 166.9	\$ 169.9	\$ 170.2	\$ 171.6	\$ 172.8	\$ 172.1	\$ 171.9	\$ 170.8
Durables	\$ Million	\$ 291.0	\$ 281.5	\$ 282.7	\$ 299.9	\$ 290.6	\$ 296.2	\$ 291.9	\$ 283.6	\$ 281.1	\$ 291.5	\$ 299.1
Mining												
Electric Power and Gas Utilities												
Cheques Cashed in Clearing Centres	\$ Million	\$ 2,841	\$ 2,840	\$ 2,858	\$ 2,861	\$ 2,908	\$ 2,922	\$ 2,953	\$ 3,024	\$ 3,085	\$ 3,098	\$ 3,160
Retail Trade	\$ Million	\$ 542	\$ 540	\$ 536	\$ 536	\$ 543	\$ 552	\$ 556	\$ 563	\$ 570	\$ 569	\$ 567
Labour Income	\$ Million	\$ 711	\$ 712	\$ 715	\$ 717	\$ 720	\$ 726	\$ 732	\$ 748	\$ 744	\$ 757	\$ 757
Labour Force	\$ 000's	\$ 2,415	\$ 2,424	\$ 2,427	\$ 2,428	\$ 2,419	\$ 2,416	\$ 2,409	\$ 2,415	\$ 2,420	\$ 2,444	\$ 2,473
Employed	\$ 000's	\$ 2,307	\$ 2,316	\$ 2,318	\$ 2,319	\$ 2,318	\$ 2,318	\$ 2,317	\$ 2,324	\$ 2,329	\$ 2,335	\$ 2,353
Unemployed	\$ 000's	\$ 108	\$ 108	\$ 109	\$ 109	\$ 103	\$ 98	\$ 97	\$ 91	\$ 91	\$ 98	\$ 102
Unemployed as a % of Labour Force	%	4.5	4.5	4.5	4.5	4.3	4.1	3.8	3.8	3.7	3.8	4.0
Industrial Employment												
Average Hourly Earnings in Manufacturing	\$ KWH	\$ 1.97	\$ 1.97	\$ 1.98	\$ 1.99	\$ 2.00	\$ 2.01	\$ 2.01	\$ 2.02	\$ 2.02	\$ 2.03	\$ 2.03
Power Consumption												
New Dwelling Unit Completions	(No.)	3,311	3,338	3,330	3,340	3,361	3,377	3,399	3,408	3,407	3,424	3,427
ECONOMIC INDICATORS, NOT SEASONALLY ADJUSTED*												
Dividend Payments	\$ 1956-100	\$ 115.2	\$ 115.0	\$ 115.7	\$ 116.2	\$ 116.4	\$ 118.5	\$ 119.1	\$ 119.3	\$ 120.5	\$ 120.8	\$ 118.6
Prices, Industrial Materials	\$ 1935-39-100	\$ 251.3	\$ 251.2	\$ 249.5	\$ 245.1	\$ 246.6	\$ 247.7	\$ 250.8	\$ 250.0	\$ 252.1	\$ 254.8	\$ 254.9
Domestic Exports	\$ Million	\$ 598.4	\$ 530.1	\$ 546.8	\$ 540.1	\$ 479.6	\$ 602.6	\$ 586.1	\$ 530.6	\$ 424.6	\$ 514.2	\$ 647.9
Imports for Consumption	\$ Million	\$ 650.2	\$ 528.8	\$ 521.5	\$ 468.9	\$ 468.7	\$ 555.3	\$ 437.5	\$ 501.8	\$ 431.3	\$ 478.2	\$ 554.6
Foreign Exchange Reserves	\$ Million U.S.	\$ 1,493	\$ 1,809	\$ 2,114	\$ 2,331	\$ 2,445	\$ 2,608	\$ 2,633	\$ 2,594	\$ 2,600	\$ 2,671	\$ 2,712

THE ONTARIO ECONOMY

Economic activity throughout Ontario continues at a moderately active pace. Signs of sluggishness that were half expected all summer have failed to materialize and, as the fall approaches with its usual stimulus to business activity, it is not difficult to see the economy continue its present momentum to the end of the year.

Major economic indicators in both Canada and the United States, continue to move upwards and are bound to have a salutary effect on the Ontario economy. Production, sales and profits have been better than expected and employment in both countries is at record levels.

PRODUCTION

The latest seasonally adjusted figure for total Canadian industrial production (June), indicates a sustained high level of activity. Although mining activity, depressed by the uranium and nickel industries' needs to adjust to overstocked world supplies, continued to soften, other sectors, especially the non-durable goods sector, were buoyant enough to offset that decline and maintain an overall level of production equal to a record set in the previous month.

The two most important areas of production in Ontario, the automobile and steel industries, continue to surprise most observers by showing little or no signs of weakness. All of the automobile companies have completed their model changeovers and have already scheduled record runs for the remainder of the year. Adding the number of 1964 models produced already this year to the total number produced in 1963 before the changeover, we get a grand total of 328,022 units produced by the end of the third week in August — 21 per cent higher than the total for the same period last year. This trend seems to indicate that total automobile production this year will exceed the record set last year, bringing about two record automobile years in a row — something unheard of before.

The steel picture is also bright. At the end of the third week in August, production was still around the 100 per cent capacity mark — a level it had maintained throughout the summer. Although caution remains, most steel men believe

that the present trend will continue to the end of the year.

The overall manufacturing picture for Canada however, is not quite so good. The latest figures (for June) indicate some soft spots. Manufacturers' shipments, new orders and inventories in June all dipped below the previous month's levels. It is still too early to tell whether any downward trend is indicated but these figures will bear watching, particularly new orders in manufacturing, which is a leading indicator. Nevertheless, in all three cases, the June unadjusted figures were higher than in the corresponding month last year. In addition, recent price rises for many industrial raw materials is indicative of heavy activity in the manufacturing sector.

EMPLOYMENT AND INCOME

A sustained high level of production in Ontario has had a beneficial effect on both employment and incomes. In August, seasonally adjusted employment in Ontario reached another high, after rising continuously since the beginning of the year. In addition, the seasonally adjusted rate of unemployment for the same month stood at 3.8 per cent of the labour force. For the whole of Canada the unemployment rate was 5.9 per cent.

Wages and salaries have been sustained at high levels as employment and average weekly hours worked in manufacturing continued high and average hourly earnings in manufacturing rose.

RETAIL TRADE

Sustained high levels of income and expanding employment have provided good backing to the consuming public's recent willingness to expand purchases. For the first seven months, total retail sales for all of Canada were 4.6 per cent higher than for the same seven months last year. In Ontario, these sales were up more than 7 per cent on the corresponding period last year. On a seasonally adjusted basis, total retail trade in Ontario for June reached a new peak, indicating an upward trend in this sector.

Automobile sales continued to dominate the retail trade picture. At a time when the public usually waits to see what the new models will look like, the previous year's models are shelved — but not so this year. The 1963 model car is still selling and dealers in major centres throughout Ontario feel that little will remain of the 1963 cars by the time the 1964 models arrive.

In recent weeks school supplies and children's clothing have also been selling well. Most retailers in these lines feel that sales will top last year's levels as school enrolment is expected to set a record this fall. The tourist industry has also done well this summer, with better than average business reported in most areas of the Province. The weather has not always been perfect but, when it was poor, holidaymakers flocked to the larger resort centres or went shopping in nearby towns. The opening of the new Trans-Canada Highway has brought added prosperity to north-western Ontario. Tourists and other motorists who once took the U.S. route west, tried the new scenic Canadian route for the first time this year. It is likely that this will become even more popular in the future.

CONSTRUCTION

Continued buoyant economic activity has encouraged further construction outlays. However, these outlays are not uniform. In Ontario seasonally adjusted new dwelling unit starts in July continued on a rising trend which was begun last January. Housing contracts however, which tend to indicate future activity in this area, dipped in August for the fifth consecutive month. This indication of future weakness can be traced largely to the recent disenchantment with apartment buildings. In Toronto, where much of the total Provincial apartment building has been undertaken, vacancies are high, and competition among landlords is fierce. Building permits for apartment construction in three of the largest suburbs for the first seven months of this year were down about 9 per cent on the same period last year. In Hamilton, on the other hand, where a major clearance for apartment buildings was only started two years ago, an apartment building boom is about to begin. Other residential housing construction is also mixed. In such centres as Toronto and Windsor, building permits so far this year are up on the previous year, while in the Lakehead they are down.

Business, industrial and engineering contracts are also on the increase. In August they rose for

the third consecutive month but have yet to equal the peak reached last December. Three recent contracts of interest were a \$4 million contract by Orenda Engines Division of Hawker Siddley Canada Ltd. for the development of a new gas turbine engine for the Federal Government, a million dollar contract by Ford Motor Co. of Canada Ltd. for the production of panel trucks for the Department of Defense Production, and a \$1.6 million contract for McNamara Road Construction Ltd. to build 10 bridges for the Spadina Expressway interchange at Highway 401.

FINANCE

So far there has been little to discourage the financing of new projects but a slight tightening in the total supply of money has occurred recently and the interest rates structure of the Canadian money market has been subject to fractional upward adjustments.

Light trading volume and fractional price declines characterized activity on the bond markets in Canada in recent weeks. The current lack of investment interest is largely attributable to prevailing uncertainty regarding President Kennedy's proposed interest equalization tax and imminent Government of Canada financing. The latter borrowing is rumoured to be in the region of \$340 - \$400 million, the proceeds of which will partly be used to refund \$223 million, 3% Canada bonds due October 1, 1963. Over the most recent four weeks, short-term Canada issues registered losses ranging from 25 to 40 cents, medium-term were off fractionally while long-term bonds declined between 1 to 1½ points on a \$100 bond. Highlighting an otherwise dull Provincial bond market was a \$50 million Province of Ontario finance comprising \$15 million of 5% 4-year bonds and \$35 million of 5½% 20-year bonds priced to yield 5.20% and 5.62% respectively.

New Canadian bond financing for the first eight months of this year totalled \$2,318 million compared with \$1,745 million in the 1962 period. The main reason for the increase was a rise in provincial and provincially guaranteed issues to \$908,000,000 from \$519,000,000.

Though the volume of trading activity on Canadian stock exchanges remains thin, this reflects the virtual withdrawal of U.S. investors from the markets. Prices of industrial equities in particular however, have advanced substan-

tially over the last four weeks. Facilities have been set up by the Toronto Stock Exchange to enable U.S. investors to trade Canadian issues amongst themselves without incurring President Kennedy's proposed tax. The Montreal and Canadian Stock Exchanges have not yet initiated similar facilities though they have indicated that they will be provided should the tax become operative.

Canada's foreign exchange reserves declined by \$30.5 million during August to a month-end level of \$2,470,500,000. The loss for the previous month amounted to \$190.6 million. The value of the Canadian dollar in the U.S.A. has remained relatively constant, trading in a range of \$0.92⁵/₁₆ to \$0.92⁷/₁₆.

FOREIGN TRADE

The devalued Canadian dollar has played a significant role in improving Canada's international trading account so far this year. Our products have become more attractive in the world market because they are cheaper, while imports have been discouraged because they have become more expensive. For the first seven months Canada had a merchandise trade surplus of \$138.1 million compared with a deficit of \$131.6 million in the same period last year.

The most significant feature of the structure of Canadian foreign trade this year, especially from the Ontario standpoint, has been the developing importance of exports of manufactured goods. For the first six months of this year, over one-third of the increase in total exports was in manufactured end-products, which rose by 21.5 per cent when compared with the same period last year. Since Ontario supplies over 50 per cent of Canada's manufactured products, the benefits gained from this new trading pattern is considerably greater in Ontario than for the rest of Canada. Indicative of the increasing competitiveness of Canada's manufactured goods was the amount of import replacement achieved in the first six months of 1963. Imports of household machinery declined 14 per cent, imports of apparel and apparel accessories were down 21 per cent, while exports of the same were up 43 per cent and imports of automobiles were down 65 per cent, while exports of these products were up 51 per cent.

In summary, the Ontario economy is still moderately active. Although the housing sector remains soft, the steel and automobile industries have yet to show any signs of weakness. Most important, the consuming public remains confident, as indicated by a rising trend in retail trade.

URANIUM AND NUCLEAR ENERGY IN ONTARIO

R. McCULLOCH

Economist

DEPARTMENT OF ENERGY RESOURCES

We in Ontario have two reasons for being interested in uranium and nuclear energy — jobs and money. These two interesting goods will be obtained for our province by mining, processing and selling uranium, mostly for export, and by designing, manufacturing and constructing Canadian-type nuclear power stations, mostly in Canada, but some also for export markets. After 1970, uranium, in the free world as a whole, will be used mostly for fueling nuclear power stations, but until then, as has been the case since

1942, uranium will probably be used predominantly for military purposes, chiefly for the production of explosive material, and for fuel for propelling American warships and submarines.

URANIUM IN ONTARIO — PAST AND PRESENT

In 1959, Canada produced well over three hundred million dollars worth of uranium, and exported about 96 per cent of it. Of the total

tonnage of almost 16,000 short tons, Ontario produced over 12,000 tons, or about 77 per cent of Canadian production. In 1962 Canada produced about 8,400 short tons, of which Ontario produced 6,420 tons, or almost 77 per cent. The total value of Canadian production in 1962 was about \$170,000,000, almost all of it exported. Ontario, in effect, is continuing to contribute and earn from over three-quarters of one of Canada's major export commodities.

The uranium industry has been significant as an employer, and it will be again one day. In 1959, the uranium mines of Ontario had a work force of almost 11,000 which by the end of 1962 had shrunk to about 3,600.

The up and down history of Ontario uranium production has occurred because strong incentives were offered by the United States in order to encourage production of military requirements, since after World War II the United States could not obtain enough uranium. By 1959, productive capacity in the free world was far greater than the military requirements of the United States and Britain, and those countries took the decision not to extend purchase commitments beyond the quantities then contracted for or agreed upon in principle. In order to avoid the collapse of the Canadian industry by 1963, a program to stretch out production was worked out. As a consequence of this, and the final working out of an additional contract for 12,000 tons which had been agreed on in principle by Britain in 1957, Canadian uranium mines have markets for reduced quantities of uranium until October 1971. By 1968, under present contracts, Canada, in this case Ontario, will be selling about 1,200 tons per year through to October 1971.

NUCLEAR ENERGY IN ONTARIO

The recent history of nuclear energy in Ontario goes back to the establishment during World War II of the research establishment at Chalk River, about 135 miles upstream from Ottawa, on the Ottawa River. After the war, powerful research reactors and other facilities were built there, primarily for basic research for peaceful purposes, and this extensive program became the basis for the development of today's Canadian approach to nuclear power. This work took place first of all under the National Research Council, and after 1952 under Atomic Energy of Canada Limited (AECL).

Since early 1954, Ontario Hydro has been

closely involved with AECL in the development of nuclear power in Canada. By the end of 1954, the decision had been taken to design and construct a Nuclear Power Demonstration Plant. The time taken to carry this out was lengthened by a decision to change the design reactor containment from one large pressure vessel to a multitude of pressure tubes, and to change the method of loading and unloading fuel. These changes improved the suitability of this plant as a prototype which could be scaled up to larger sizes. The later version of this station, known as NPD-2, was designed, engineered and constructed by a partnership of AECL, Ontario Hydro and Canadian General Electric, and went into operation in 1962 at Rophton, on the Ontario side of the Ottawa River near Deep River. This 20,000 kilowatt capacity station feeds power into Ontario Hydro's distribution system.

Before NPD-2 was complete, the 200,000 kilowatt station, known as CANDU, was under construction at Douglas Point, near Kincardine in Bruce County. This station using essentially the same principles as NPD-2, is well on its way to completion, is within cost estimates, and is scheduled for operation as part of Ontario Hydro's distribution system early in 1965. The final capital cost is expected to be around \$80 million.

This work has been taking place in Ontario because it is here that the need for nuclear power is being felt first in Canada. Almost all of Ontario's accessible water power sites have been developed, and if nuclear power is not developed and applied successfully in Ontario, all new generating capacity will depend on imported coal, mostly from the United States. This would be a heavy drain on Canada's balance of payments, a drain estimated at \$300 million annually by 1980. The successful development of nuclear power will mean that half of Ontario's new capacity between now and 1980 will be nuclear and Ontario's economy stands to gain directly in income and high grade employment.

The Canadian type of natural uranium heavy water reactor, appears to be able to provide a successful economic solution to this problem. The manufacturing industry in Ontario is confident that the experience already derived from designing and building NPD-2 and CANDU gives an adequate basis for offering to design and build, on a firm price basis, a 1,800,000 kilowatt nuclear generating station in Ontario. This station, consisting of four 450,000 kilowatt units, would come into operation during the 1968-1972 period, and is expected by its designers to

save the electricity consumers of Ontario several million dollars annually in power costs alone, compared with coal-fired power generation. This is not counting employment and income generated by the added work to be done, mostly in Ontario, in designing and manufacturing the special equipment required. It appears that agreement has been reached in principle to build this plant somewhere in Ontario. If we make the reasonable assumption that the Canadian type of reactor is in fact the solution to part of Ontario's need for base load power capacity, we can expect that by 1980, seven million kilowatts of nuclear power capacity will be in operation in Ontario.

URANIUM – ITS FUTURE

Ontario is very interested in the future markets for uranium, because the major part of known and inferred free world uranium reserves are located in this province. In 1970, after intervening production, Ontario will still probably possess about 270,000 tons of recoverable uranium, without further exploration beyond the present. This is compared with a probable 65,000 tons in the United States in 1970, and a world total of somewhat over 400,000 tons, including Canada and the U.S., if no further exploration is undertaken before 1970.

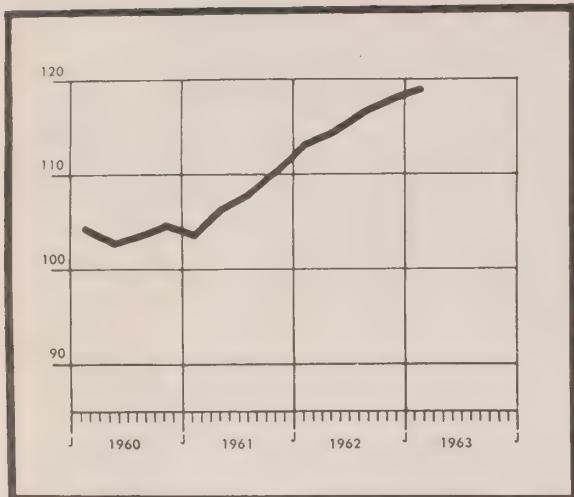
Official and semi-official forecasts in the major power consuming regions of the free world indicate a nuclear power generating capacity in 1980 of over 130,000,000 kilowatts, if one takes the more conservative estimates whenever a range of figures is given. If we assume that Canada and Sweden will utilize heavy water reactors, while the U.S.A., Britain, Japan, Euratom and Spain utilize other heavy reactor types, with India and Pakistan using 50-50 heavy water and other types, the 1980 free world requirement for uranium, merely for electricity generation, will total about 45,000 tons. This demand will probably cause orders for that amount to be placed for production of U_3O_8 from the mines in 1978. This writer's forecasts indicate a nuclear power requirement for about 9,500 tons in 1970, based on 1972 free world nuclear power capacity. To go from 9,500 to 45,000 tons in eight years represents a phenomenal compound growth rate of

21.5 per cent annually. Projected to 1980, this indicates a 1980 requirement for power generation of 66,500 tons of U_3O_8 . This writer in fact took each of the countries mentioned above, and calculated their individual cumulative requirements, according to their various growth rates, and arrived at a total power requirement for uranium for the 1970 to 1978 period for these nine countries of over 207,000 tons of U_3O_8 , and for the 1970 to 1980 period the total reaches the astonishing figure of almost 330,000.

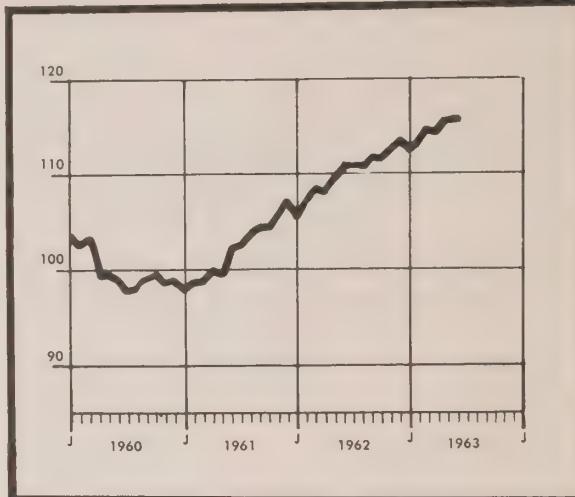
In order to round off the picture of requirements, one must add about 5,000 tons annually for the 1970-80 period to supply marine propulsion reactors and research reactors. No allowance is made for providing more weapons grade materials, because new weapons can use the nuclear explosive already contained in obsolescent weapons. This gives a picture of total new requirements of 14,500 tons in 1970, rising to about 25,000 tons by 1974, and 50,000 tons annually by 1978.

Canadian sales of uranium in 1970 will be in the region of 3,300 tons, if Canada fills the whole Canadian requirement, none of the American, and half of the rest on our list of nine, except for Britain, where Canada will sell only the 1,200 tons now under contract for 1970. By 1974, Canadian sales should be in the region of 8,000 to 9,000 tons, because by then Britain will have worked through her stockpile, and nuclear power capacity in the free world will be growing very quickly. Known ore reserves appear to be adequate to cover requirements until 1980, and there seems little doubt that more uranium will be found here and in the United States if price increases and continuing demand provide an incentive for exploration. However, the early 1970's should see a very active program of exploration and mine reopening in Ontario, and by the mid-1970's a major program of development of new mines and new ore reserves will be required to keep pace with market demand. Even if reactor types which are more economical of uranium than the types at present predominant in Britain and the U.S. come more widely into use during the 1970's than is assumed in this article, we should expect a rapid and long lasting increase in demand for Ontario uranium to begin by the mid-1970's.

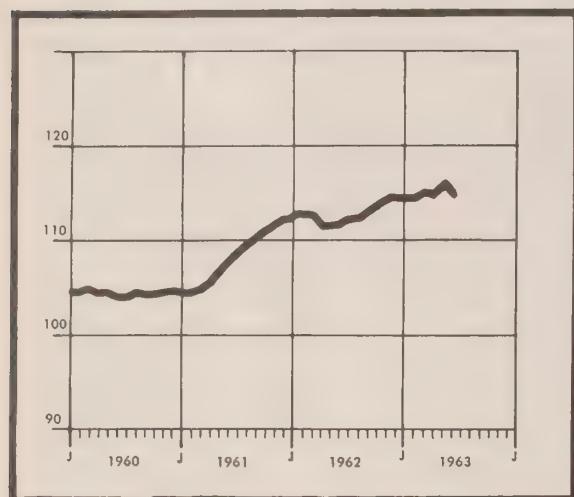
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



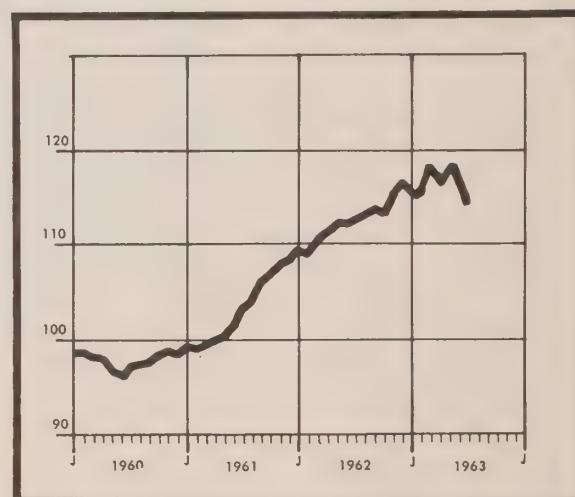
GROSS NATIONAL PRODUCT (CANADA)



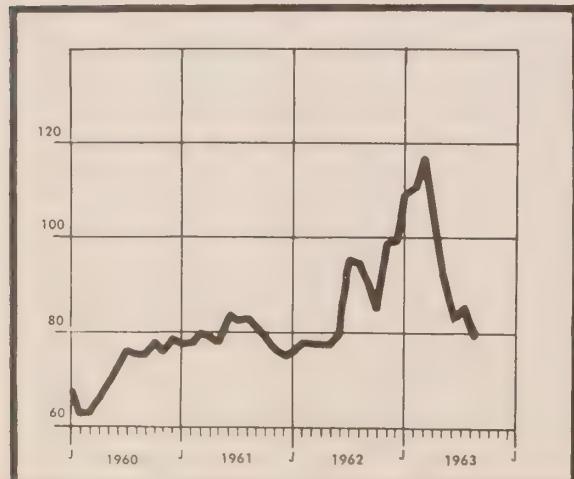
INDEX MANUFACTURING PRODUCTION (CANADA)



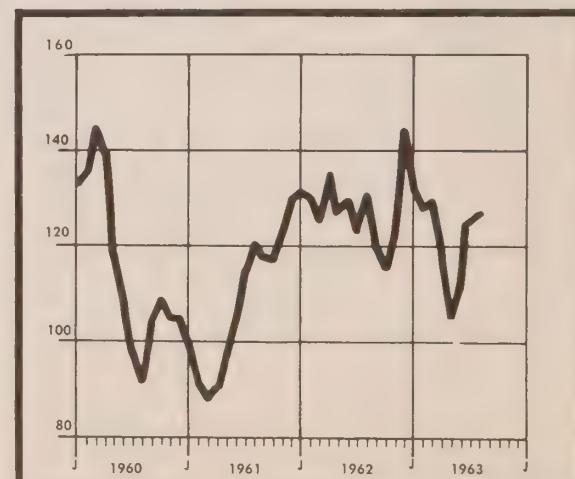
POWER CONSUMPTION (ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

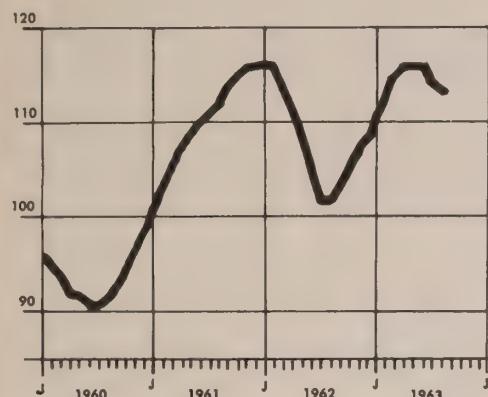


HOUSING CONTRACTS (ONTARIO)

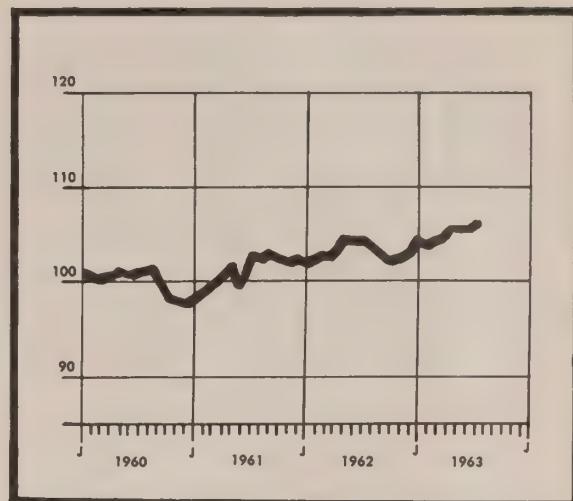


BUSINESS, INDUSTRIAL AND ENGINEERING CONTRACTS (ONTARIO)

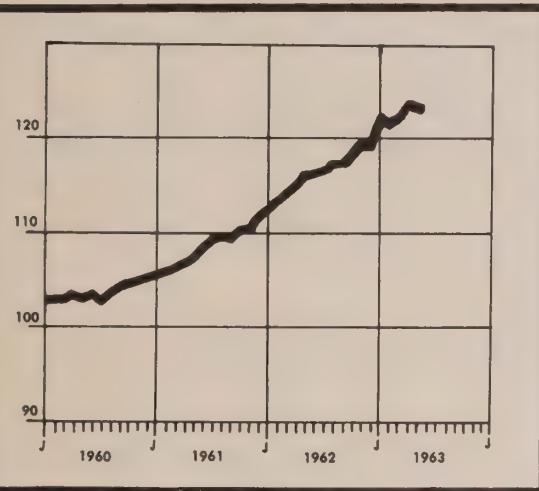
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



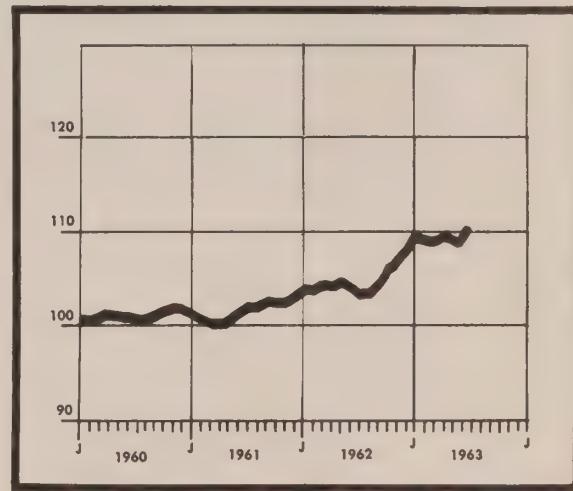
20 INDUSTRIAL STOCKS (T.S.E.)



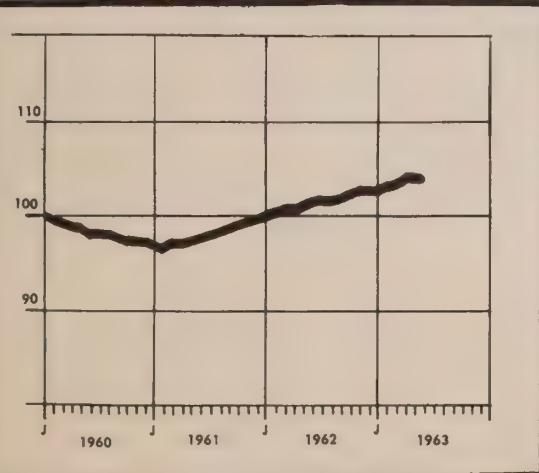
PRICES, INDUSTRIAL MATERIALS (CANADA)



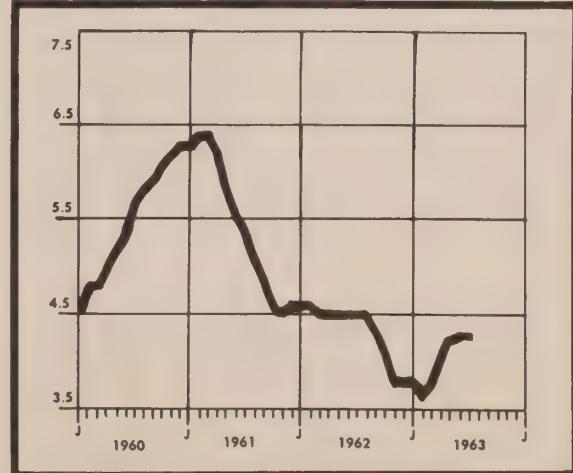
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED
(* Figures for Canada)

	1963																			
	1962			1963																
	LEADING INDICATORS			June		July	August		September	October	November	December	January	February	March	April	May	June	July	August
Average Weekly Hours Worked in Manufacturing	\$ Million	40.9	40.9	41.0	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	41.1	41.1	41.1	41.1	41.1	41.1
T.S.E. Industrial Stock Index	(No.)	553.5	540.2	538.5	549.4	557.4	567.4	577.4	589.3	600.2	613.1	617.2	622.4	622.5	613.6	608.9	608.9	608.9	608.9	608.9
Business Failures - Number	1934=100	82	82	81	83	85	86	86	83	81	85	88	90	93	91	91	91	91	91	91
Business Failures - Liabilities	\$ Million	6,487	6,119	5,538	5,739	5,298	4,182	3,694	3,618	4,936	6,003	5,86	6,783	6,233	6,233	6,233	6,233	6,233	6,233	6,233
New Orders in Manufacturing*	\$ Million	2,240	2,259	2,267	2,262	2,296	2,330	2,306	2,361	2,331	2,365	2,365	2,290	2,290	2,290	2,290	2,290	2,290	2,290	2,290
New Dwelling Unit Starts	(No.)	3,088	2,921	2,878	2,797	2,875	2,839	3,015	3,325	3,665	4,076	4,164	4,371	4,371	4,371	4,371	4,371	4,371	4,371	4,371
Housing Contracts	\$ Million	34.9	41.8	39.6	36.8	42.9	43.4	47.4	48.2	50.8	45.5	40.2	35.8	36.5	36.5	36.5	36.5	36.5	36.5	36.5
Business, Industrial and Engineering Contracts	\$ Million	82.8	79.1	83.5	76.8	73.4	78.8	92.2	84.7	81.7	83.1	75.3	66.8	73.8	73.8	73.8	73.8	73.8	73.8	73.8
Money Supply*	\$ Million	15,540	15,382	15,031	14,998	15,143	15,210	15,267	15,391	15,563	15,576	15,659	15,755	16,005	16,005	16,005	16,005	16,005	16,005	16,005
<u>COINCIDENTAL AND LAGGING INDICATORS</u>																				
Gross National Product*	\$ Million	40,048																		
Total Industrial Production*	1949=100	186.3	186.7	188.7	188.8	189.1	189.6	189.7	189.4	191.1	194.0	194.3	195.6	195.6	195.6	195.6	195.6	195.6	195.6	195.6
Total Manufacturing Non-Durables	\$ Million	165.8	166.1	165.8	167.6	167.3	168.3	169.9	168.8	169.4	172.0	171.7	173.7	174.2	174.2	174.2	174.2	174.2	174.2	174.2
Durables	\$ Million	166.7	165.7	164.9	165.7	164.9	164.9	165.4	167.4	165.9	167.3	172.7	172.7	172.8	173.9	173.9	173.9	173.9	173.9	173.9
Mining	\$ Million	164.8	166.7	166.9	166.9	166.9	170.2	171.6	172.8	172.1	171.9	171.1	172.8	174.8	174.7	174.7	174.7	174.7	174.7	174.7
Electric Power and Gas Utilities	\$ Million	281.5	282.7	299.9	290.6	296.2	291.9	283.6	281.1	291.5	299.5	302.1	297.5	297.5	297.5	297.5	297.5	297.5	297.5	297.5
Cheques Cashed in Clearing Centres	\$ Million	2,840	2,858	2,861	2,908	2,922	2,953	3,024	3,085	3,098	3,140	3,173	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Retail Trade	\$ Million	540	536	536	543	552	556	563	570	569	567	570	569	569	569	569	569	569	569	569
Labour Income	\$ Million	712	715	717	720	726	730	730	748	744	748	757	757	757	757	757	757	757	757	757
Labour Force Employed	\$ Millions	2,424	2,427	2,428	2,416	2,409	2,415	2,420	2,422	2,426	2,426	2,444	2,455	2,467	2,467	2,467	2,467	2,467	2,467	2,467
Unemployed as a % of Labour Force	\$ Millions	2,316	2,318	2,319	2,316	2,318	2,318	2,317	2,324	2,329	2,332	2,335	2,346	2,353	2,366	2,381	2,381	2,381	2,381	2,381
Industrial Employment	%	4.5	4.5	4.5	4.5	4.1	4.1	3.8	3.8	3.8	3.8	3.7	3.8	4.0	4.2	4.1	4.1	4.1	4.1	4.1
Average Hourly Earnings in Manufacturing	\$ MMH	1.949=100	122.9	123.1	123.3	123.7	123.9	124.2	124.6	125.0	125.2	125.5	125.8	125.8	125.8	125.8	125.8	125.8	125.8	125.8
Power Consumption	\$ Million	3,318	3,330	3,340	3,361	3,399	3,408	3,407	3,407	3,407	3,407	3,424	3,427	3,427	3,427	3,427	3,427	3,427	3,427	3,427
New Dwelling Unit Completions	\$ Million	2,929	3,188	3,178	3,150	2,916	2,794	2,794	2,794	2,794	2,794	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687
<u>ECONOMIC INDICATORS, NOT SEASONALLY ADJUSTED*</u>																				
Dividend Payments	\$ Million	1956=100	115.0	115.7	116.2	116.4	118.5	119.1	119.3	120.2	120.5	120.8	118.6	119.9	119.3	119.3	119.3	119.3	119.3	119.3
Prices, Industrial Materials	\$ Million	1935=39=100	251.3	251.2	249.5	246.7	245.1	246.6	247.7	250.0	250.3	252.1	254.8	254.9	255.3	255.3	255.3	255.3	255.3	255.3
Domestic Exports	\$ Million	530.4	546.8	540.1	479.6	506.1	602.6	493.6	530.6	424.6	424.6	487.7	514.2	515.7	515.7	515.7	515.7	515.7	515.7	515.7
Imports for Consumption	\$ Million	528.8	559.0	521.5	468.9	556.7	555.3	437.5	504.8	431.3	431.3	478.2	555.6	555.6	555.6	555.6	555.6	555.6	555.6	555.6
Foreign Exchange Reserves	\$ Million U.S.	1,809	2,114	2,145	2,331	2,608	2,614	2,539	2,608	2,600	2,600	2,671	2,712	2,692	2,501	2,501	2,501	2,501	2,501	2,501

THE ONTARIO ECONOMY

One cannot help but feel encouraged with the present condition of the Ontario economy. A quick glance at the major indicators reveals a substantial recovery from the brief period of hesitancy which occurred early in the summer. Employment and income are at high levels, major productive sectors show little signs of slackening, residential construction, which was rather weak all summer, is turning upwards and retail sales — a prime indicator of economic activity — jumped sharply in August to a record level.

Moderately buoyant activity in the rest of Canada and the United States has also provided an optimistic environment for the Ontario economy. In both countries recent reports on profits have been encouraging and consumer purchases remain strong, basic ingredients for a healthy economy. In Canada, moreover, the huge wheat sales of recent weeks are boosting optimism about our economic prospects.

PRODUCTION

Overall productive activity in Canada has been well maintained. Nevertheless in July, the most recent month for which statistics are available, some decline was evident. The seasonally adjusted index of total industrial production in July, although down about three points from the previous month's all-time high, was nevertheless at a high level when compared with the previous twelve months. The July decline resulted from a rather wide-spread drop in all productive sectors except electric power and gas utilities production, which rose by about three per cent. There is some feeling that the July drop may be due to more concentrated vacation shutdowns this summer and therefore not fully accounted for in the seasonal adjustments. A close look at the industrial production index for the next two months should throw more light on this.

In Ontario, industrial producers have maintained their high output levels of the summer months. In two of Ontario's major industries, automobiles and steel, production remains high. Automobile production continues to be bolstered by the Canadian consumer's buying mood. Production schedules through to the end of the year are still more than 20 per cent higher than in the same period last year. Stimulated by the automobile industry's needs, steel production also remains high. In the last week of September production was just under 100 per cent of rated capacity and the total tonnage produced for the year so far was nearly 16 per cent higher than for the same period last year. Nevertheless, September's levels do indicate some softening, which would certainly be accentuated by a drop in automobile production. Since May there has been a gradual month-by-month decline in steel production and the trend may continue down for a few more months.

With the Federal Government's tariff incentive program, effective November 1, 1963, designed to rectify the balance of payments, via the automobile industry, further productive activity in Ontario could result. The greatest effect would be on the automotive parts industry which would be encouraged to increase substantially their exports to the United States.

A further set-back in the mining sector occurred recently with an additional lay-off of 530 employees from Falconbridge Nickel Mines Ltd. in Sudbury and 275 employees from the International Nickel Co. of Canada Ltd. at Port Colborne. The lay-offs result from overstocking of nickel supplies. At Sherrit Gordon Mines Ltd. in Manitoba, however, where the nickel is easier to mine and depletion allowances higher, production continues unimpaired and the company is able to sell all it produces. The drop in nickel production, together with declining markets for uranium, brought about a further drop in total Canadian mining production, which in July fell another 5 per cent from the previous month.

EMPLOYMENT AND INCOME

Reflecting some of the soft spots in production, industrial employment in July eased somewhat from the steady high levels of the previous four months. Nevertheless, total employment for the Province in September remained high, and as a larger than usual number of students returned to school, the percentage of the labour force out of work improved considerably. In September, 3.4 per cent of the labour force was seeking work, compared with 5.9 per cent for the whole of Canada.

Increasing employment together with rising average hourly earnings in manufacturing have maintained income in Ontario at high levels. In July, the seasonally adjusted level of labour income, although off a little from the previous month, remained at near record levels.

RETAIL TRADE

The continued high level of labour income in Ontario has provided a good backing to the sustained buying mood of the average consumer. In August total retail trade in Ontario jumped to a record high. There are several reasons for the sharp increase in sales, but most striking is the continued demand for automobiles. Apart from cars, the most impressive gains in retail trade were department store sales, which have also been pushed to record levels. For the first eight months of this year department store sales in Ontario were nearly 8 per cent higher than in the same period last year, compared with a little more than 5 per cent advance for the whole of Canada. Demand was particularly high for consumer soft goods. This is borne out by the rise in sales in major centres for men's and women's clothing, although there are reports in Toronto and Kitchener of better than ever sales of furniture, especially quality furniture, and bedroom, living room and dining room suites.

An overall benefit accrued to the consumer in September as the Canadian cost of living declined slightly. The principal reason was a decline in the cost of food, an item that ranks high in all household budgets.

CONSTRUCTION

A high tempo of construction activity throughout the Province at the present time reflects the continued high level of business activity in general. However the levels of activity in the various segments of the construction industry remain divergent. On the bright side housing construction is improving considerably. In August, new

housing unit starts in Ontario reached a new high and in September housing contracts, an indication of future activity, jumped to the highest level in more than twelve months. This jump in housing contracts for September may be the beginning of a stepped up winter housing program, which was stimulated by the Federal Government's offer to defray some of the down payment costs of winter constructed houses. Offsetting new housing contracts in September was a substantial drop in business, industrial and engineering contracts. Future activity in this field therefore may be somewhat reduced, although there are many bright spots in the picture.

In August, 21 new building permits were issued for commercial and industrial plants in Scarborough alone, including a major head office plant expansion for Howden and Parsons of Canada Ltd. costing \$3 million. Recently, C. A. Pitts General Contractors Ltd. were awarded the largest Ontario highway contract in history to construct a new interchange north of Toronto on highway 401, valued at \$6.3 million. The completion date is December 1965. Other major building plans throughout Ontario at the present time include the construction of a \$7.5 million chlorine and caustic soda plant in Hamilton by Canadian Industries Ltd.; a steel-rolling mill near Whitby for a new company, Lake Ontario Steel Co. Ltd., valued at \$8 million; and a contract worth \$2.7 million to Perini Ltd. (Ottawa) to construct a Health Department research centre in Ottawa. In addition, Parliament is expected to approve a plan to twin the locks on the Welland Canal. If so, work could be started this winter. It is estimated that at peak periods between 4,000 and 6,000 persons will be given work on this job. It is expected to cost \$180 million and take five years to complete.

FINANCE

Fears of an imminent monetary crisis have tended to be dispelled following encouraging business developments in both Canada and the U.S.A. Consequently, as the supply of loanable funds increased, the interest rate structure of the Canadian capital market was adjusted downwards with effective rates being lowered by as much as a half of one per cent.

Bond markets in Canada have strengthened perceptibly since the last review with substantial price improvement occurring in all sectors. On average, price advances have ranged from some 25 cents in respect of short-term issues to almost \$2.00 on the longer termed maturities. Prominent amongst the many factors contributing to the return of confidence have been: the business optimism engendered by the \$500 million wheat sales to the U.S.S.R.; the improvement in the value of the Canadian dollar; the halting of the drain on Canada's official holdings of gold and dollar reserves; the excellent reception accorded to \$325 million Federal Government refunding issue (comprising \$185 million 3½'s due October 1, 1964, priced to yield 4.28%, \$90 million 4½'s due April 1, 1965, priced to yield 4.67%, and \$50 million 5's due October 1, 1968, offered at par) and the favourable reception of various recent new Provincial and Corporate issues. The highlight of the Provincial bond market was a record \$75 million 15 and 25-year Province of Quebec 6% bond issue. The 15-year maturity was offered at par and the 25-year maturity was priced to yield 6.04%. While new bond financing in

Canada was 41.8 per cent lower in September than a year earlier (\$292.4 million as compared with \$502 million) the total for the first nine months of this year amounted to \$2,621,425,100 or 8.3 per cent higher than in the same period of 1962.

Though the volume of trading on Canadian stock exchanges has continued light, fairly substantial gains have been registered in recent weeks, particularly in the industrial sector. The T.S.E. Industrial Index has been recording new all-time highs in recent sessions. The ability of the markets to withstand late profit taking is regarded as an encouraging feature but the threat of the proposed U.S. Interest Equalization Tax still overshadows and clouds the trading picture.

Canada's foreign exchange reserves rose by \$97.8 million during September to end the month at a level of \$2,568,300,000 — the first increase in reserves since the announcement of the proposed Interest Equalization Tax on July 18, 1963.

The Canadian dollar has strengthened slightly in terms of the U.S. dollar though fluctuations have been confined to a half-cent range.

FOREIGN TRADE

Foreign commodity trade in August remained brisk, but when compared with the level a year earlier was only slightly improved. Compared with a year earlier, Canadian exports rose only 0.5 per cent in August. Imports were also up over last year, but only 0.7 per cent, and there was a resultant surplus of \$32.8 million, compared with a surplus of \$33.6 million for August last year. For the first eight months of this year exports were still 6.5 per cent ahead of those for the same period last year, while imports broke about even. There is still a substantial surplus so far this year compared with a sizeable deficit last. This surplus is likely to be fairly well maintained through to the end of the year, although imports a year ago were artificially reduced because of the surcharges.

Among recent export orders were two sizeable ones for Ontario companies. An Ottawa contracting firm, Campeau Construction Ltd., obtained an order for 500 prefabricated houses worth about \$10 million to be delivered to West Germany. The other was a \$2 million order from the New Zealand Government Railways for 10 more diesel-electric locomotives from General Motors Diesel Ltd. of London, Ontario. This order repeats a previous one in March.

So far Ontario has not been widely affected by the huge wheat sales in Western Canada. Nevertheless activity this winter at such terminal ports as Midland, Collingwood, Sarnia and the Lakehead is expected to be stepped up as the wheat to the U.S.S.R. is cleared off as soon as possible. These elevators will be stored to capacity by the end of the shipping season and from then on, grain will be shipped via rail to the eastern seaports. Already, employment at the Lakehead has increased as a considerable number of extra jobs have been given to railroad and grain elevator workers.

In summary, the Ontario economy still appears active and is likely to continue so, at least until the end of the year. Record levels of sales, moderately high productive activity in most sectors except mining, and high levels of employment and income, all contributed to solid development.

THE STRUCTURE AND CONCENTRATION OF ONTARIO MANUFACTURING AND ITS RELATIVE POSITION IN CANADA

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Since World War One, the Province of Ontario has accounted for half the value of Canada's total manufacturing output, one-third of the population and about 37 per cent of the labour force. Its manufacturing sector employs nearly half of Canada's manufacturing workers, whose net output (measured collectively or per employee) is considerably more than the net production of those engaged in manufacturing elsewhere in the country.

The Ontario manufacturer today produces a wide range of commodities, some of which are marketed in foreign countries. Nevertheless the bulk of these commodities are consumed by Canadian industry and the Canadian consumer. Neither prosperity, nor depression nor war has substantially changed Ontario's position in Canada's economy, while the proportionate share of other provinces has changed considerably. In what follows we will outline some of the important reasons for the concentration of manufacturing industries in this Province and analyse the position and structure of these industries relative to that of Canada as a whole. This is important since the trends in national income and living standards will be greatly influenced by industries located in Ontario.

Perhaps the most important reason for the establishment of manufacturing industries in Ontario is the abundance of natural wealth. But this is by no means the entire explanation. Several other provinces are well endowed in this respect. Nor is it certain that national policy has brought manufacturing to Ontario. National policy has, in many ways, favoured manufacturing as it has agriculture, mining and forestry. Tariff protection, for example, applies everywhere in Canada. Thus, neither national policy nor natural wealth can be construed as wholly responsible for the concentration of manufacturing activities in this Province. Manufacturers who established in Ontario also considered that part of the country where it was most economical to transport raw materials, assemble parts and market the finished products. In addition, they considered the availability of power for the mills, land and fresh water for industrial use, a good supply of skilled labour, and favourable climatic conditions. Most of these prerequisites to industrial development have been available in Ontario to a degree not found in other provinces.

The establishment and vigorous growth of the motor vehicle industry in Ontario is of particular interest in this connection. The predecessor of the present day motor vehicle industry was the carriage industry whose establishment was initially favoured in both Michigan and Ontario by a plentiful supply of hardwood forests. While this factor is not important today, the automobile and many other industries find Ontario more attractive as the centre of production and distribution because the

net sum of the advantages is still greater here than elsewhere in Canada.

ONTARIO'S POSITION AND STRUCTURE OF ITS INDUSTRIES

Despite rapid industrialization and continued diversification of manufacturing production throughout Canada, Ontario remains by far the most industrialized region. It produces a wide range of commodities to satisfy both industrialists and consumers. Within manufacturing in Ontario, durable goods are more important than non-durable goods. In 1960, the latest year for which the data is available, Ontario accounted for 58.1 per cent of the total net output of durable goods in Canada and 44.5 per cent of the non-durable goods. Among the durables, the machinery industries group was the most highly concentrated in Ontario. In the non-durable goods sector, the rubber industries ranked first in order of concentration in the Province.

There were 175 manufacturing industries in Ontario in 1960. In 27 of these industries, 80 per cent or more of Canada's value added* was concentrated in Ontario. In 65 of them, 50 to 80 per cent of the net value of Canadian production came from Ontario, and in the remaining 85, Ontario accounted for less than 50 per cent of net production in Canada. Of the latter, however, there were only 10 industries which contributed less than 20 per cent of the total.

Some manufactured goods are almost entirely produced in Ontario. Included among these are motor vehicles and motor vehicle parts, amounting to 97% of the total, agricultural implements, 90 per cent of which are made in Ontario, heavy electrical machinery, of which the Province accounts for 85 per cent, and rubber goods, primary iron and steel, radio and television equipment, industrial chemicals, industrial machinery, heating equipment, and electrical and non-electrical major appliances, of which Ontario produces more than 50 per cent of Canada's output.

Within Ontario manufacturing is highly concentrated. On the basis of net value of production, Ontario's 20 leading industries are listed in Table I. This table indicates that only a handful of industries dominate Ontario's manufacturing scene. In 1960, these 20 industries accounted for nearly half of Ontario's total net output and 42.1 per cent of its total manufacturing employment.

*Value added is one of the most important measures of the performance of an industry, for it is this value from which the employer pays wages and salaries to its labour, rent and interest to land and the capital inputs, taxes to the government and collects its own profits. This value is derived by subtracting the cost of materials, including the fuel and electricity, from the gross value of total output. Value added is equivalent to net value of production.

TABLE I
CHARACTERISTICS OF 20 ONTARIO LEADING INDUSTRIES IN 1960,
RANKED BY NET VALUE OF PRODUCTION

Ranking	Industry	Net Value	No. of Employees	% of Canada's Manufacturing Net Production	% of Canada's Manufacturing Employment
1	Motor vehicles	\$330,019,595	26,688	97.5	96.0
2	Iron and steel mills	301,405,888	26,571	80.3	72.9
3	Smelting and refining	248,432,649	11,377	49.0	38.3
4	Pulp and paper mills	232,568,350	20,318	28.7	32.3
5	Miscellaneous machinery and equipment	143,230,744	17,578	65.8	63.7
6	Industrial chemicals	135,264,993	9,227	56.6	56.4
7	Electrical industrial equipment	133,137,159	15,007	89.7	87.9
8	Printing and publishing	127,053,802	14,102	48.3	44.9
9	Motor vehicle parts and accessories	123,889,726	14,730	95.9	95.6
10	Metal stamping, pressing and coating	100,389,759	12,021	57.8	57.8
11	Printing and bookbinding	89,526,658	12,245	57.0	52.1
12	Fruit and vegetable canners and preservers	84,374,438	10,326	69.0	62.2
13	Rubber tires and tubes	83,839,090	8,004	98.3	99.1
14	Breweries	81,276,980	2,735	42.7	34.8
15	Bakeries	78,136,022	15,224	41.4	40.9
16	Slaughtering and meat packing	77,020,633	9,698	36.8	37.4
17	Miscellaneous metal fabricating	74,066,627	9,445	66.9	63.9
18	Soap and cleaning compounds	72,650,135	3,336	90.2	83.8
19	Communications equipment	70,147,147	10,104	42.6	44.0
20	Petroleum refining	68,248,858	5,119	25.9	38.2

Source: Original data from D.B.S., Manufacturing Industries of Canada, 1960.

Ontario manufacturing tends to be dominated by large establishments. In 1960 there were 13,387 establishments; they provided employment for 603,467 persons, and spent \$6.1 billion on materials and \$2.6 billion on labour. The net value of production of these establishments amounted to \$5.3 billion. As is to be expected, most of the manufacturing production in Ontario was carried on by incorporated companies, which accounted for 55.1 per cent of all establishments and 95.4 per cent of manufacturing employment. Proprietorships ranked second, accounting for 32.4 per cent of all establishments but only 2.8 per cent of employment. The remaining establishments were operated either under partnership or as cooperatives, and these employed about 2 per cent of the manufacturing labour force. From the standpoint of employment, incorporations are the single most important operations. Although there is a large percentage of proprietorship, its importance to employment is marginal.

DURABLE GOODS INDUSTRIES AND BUSINESS CYCLES

As pointed out above, Ontario is a major producer of durable goods. The concentration of durable goods industries in a region brings many extra pecuniary and non-pecuniary gains to the labour force it employs. This concentration also affects the wage rate in other sectors of the economy, since all sectors must compete simultaneously for a given pool of labour. The higher-wage industries usually exert upward pressure upon the wage structure of "low wage" industries such as service and finance. However, durable goods industries confront a region with adverse consequences of their own, for these industries are affected more by changes in demand than those producing soft goods. As a result, a small downturn in 1954 had a more pronounced effect upon production in Ontario than elsewhere in Canada. The value added, for instance, in that year was 4.8 per cent

lower in Ontario compared with a decline of 1.1 per cent for Canada as a whole. The decline in manufacturing employment in Ontario showed a similar trend. It dropped by 5.6 per cent, while for the country as a whole it dropped by 4.5 per cent. Conversely, as net output and employment rose in the next three years, Ontario reported higher gains than Canada. Between 1954 and 1957 we find that net output and employment in Ontario was up by 28.4 and 7.6 per cent, respectively, while Canada registered an increase of 24.3 and 7.2 per cent respectively. The mild depression of 1958 followed the usual trend. In that year, Ontario's net output was down by 2.7 per cent and the loss in employment was 5.8 per cent. For the nation as a whole, the decline was 0.3 and 5.1 per cent respectively. The upturn in 1959 and downturn in 1960 again followed the expected pattern. The value added and the number of persons employed by the manufacturing sector of Ontario reported higher increases in 1959 and greater losses in 1960, compared with all provinces together.

PRODUCTIVITY

With ever increasing changes in methods of production, brought on by technological improvements and automation, a greater volume of output is being produced by fewer people. Indicative of this trend is an increase of 49.3 per cent in the volume of manufacturing production in Canada since 1949, against an increase of only 10.5 per cent in the number of persons employed during the same period. Since no production indexes are available on a provincial basis, no direct comparison between the two is possible for Ontario. However, since this Province produces half of Canada's total output, there is scarcely any doubt about the prevalence of a similar trend in Ontario.

Productivity levels, measured by the net value of output per worker, can hardly be expected to be uniform, either between the provinces, or within Ontario itself.

In 1960, the net value of manufacturing production in Ontario was \$8,815 per worker, against a net value of \$7,543 per man for the remainder of Canada.

Within Ontario itself the output per worker in manufacturing varies considerably. There are also sharp differences between the durable and non-durable sectors. In the durable goods sector the primary metal industries was the leading industrial group in 1960 with a net production value of \$12,249 per employee, followed by transportation equipment with \$9,696 per employee. Within the non-durable goods sector, the chemical and chemical products industries not only led this sector with a net production value of \$14,935 per worker, but exceeded the leading industrial group in the durable goods sector as well. It was closely followed by petroleum and coal products industries, with a net value of \$13,511 per man.

Of the 175 manufacturing industries in the Province, over two-thirds had a larger net output per employee, than in the country as a whole.

The higher net output per manufacturing employee in Ontario reflects higher efficiency in production. Average output per man can rise due to technological progress resulting from innovations in plant and equipment and in the processes or organization of production. It can rise because of shifts from less efficient to more efficient

plants and industries as well as shifts in relative importance of industries with different levels of productivity. However, it can also rise because workers work harder and more hours, and because more capital per unit of labour is used. It can rise due to economies of scale, as overhead expenditures are reduced per unit of output, and greater specialization of production is made possible as output grows.

Ontario possesses most of these characteristics which favour higher productivity. It has a large home market which makes it possible to enjoy considerable economies of scale and low transportation costs, since the movement of goods and materials within Ontario requires shorter hauls relative to total output than in other provinces. Ontario probably benefits first from technological innovations since it predominates in many industries which are quite responsive to technological changes. The concentration of so many industries in one region is also helpful in realizing external economies, since the output of some industries is also the input of other industries. Thus, improvement in the efficiency of production in one industry can easily be passed on to another. As a result of all Ontario's favourable factors, this Province has a high concentration of high-productivity industries.

TABLE II
POSITION OF ONTARIO'S 20 LEADING INDUSTRIES
IN CANADIAN MANUFACTURING — 1960

Ranking	Industry	Net value per Employee		Net value per Establishment	
		Ontario	Rest of Canada	Ontario	Rest of Canada
1	Motor vehicles	\$12,366	\$ 8,363	\$30,001,781	\$ 1,188,693
2	Iron and steel mills	11,343	7,464	16,744,772	2,463,302
3	Smelting and refining	21,836	14,134	27,603,628	18,506,955
4	Pulp and paper mills	11,446	12,774	5,814,209	6,579,301
5	Miscellaneous machinery and equipment	8,148	7,422	548,777	502,879
6	Industrial chemicals	14,660	14,540	2,459,364	1,366,793
7	Electrical industrial equipment	8,872	7,399	1,875,171	528,648
8	Printing and publishing	9,010	7,846	441,159	293,115
9	Motor vehicle parts and accessories	8,411	7,951	1,392,019	178,103
10	Metal stamping, pressing and coating	8,351	8,345	374,589	292,132
11	Printing and bookbinding	7,311	6,001	119,528	66,415
12	Fruit and vegetable canners and preservers	8,171	6,049	534,015	187,192
13	Rubber tires and tubes	10,475	20,925	10,479,886	1,443,833
14	Breweries	29,717	21,248	4,515,388	3,027,210
15	Bakeries	5,132	5,036	92,688	61,870
16	Slaughtering and meat packing	7,942	8,152	1,055,077	966,812
17	Miscellaneous metal fabricating	7,842	6,868	381,787	288,597
18	Soap and cleaning compounds	21,778	12,161	1,084,330	117,439
19	Communications equipment	6,943	7,345	746,246	2,489,100
20	Petroleum refining	13,332	30,613	9,749,837	6,851,414

Note: Industries are ranked by net value of production in Ontario.

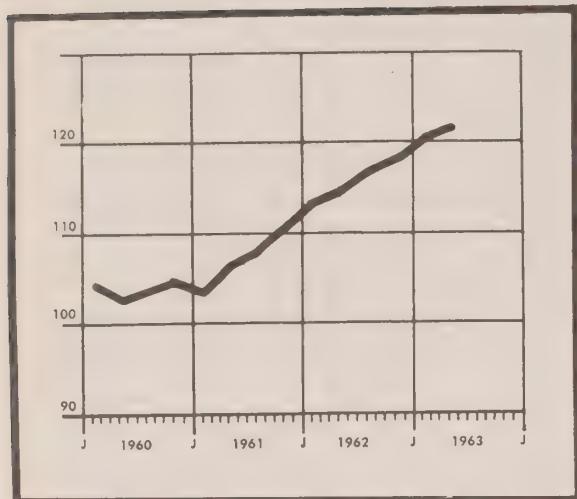
Source: Original data from D.B.S., Manufacturing Industries of Canada, 1960.

Of the 20 leading industries, shown in Table II, 15 have higher net output per manufacturing employee than in the remainder of Canada. This is due in large part to the overwhelming domination of these industries by Ontario manufacturers.

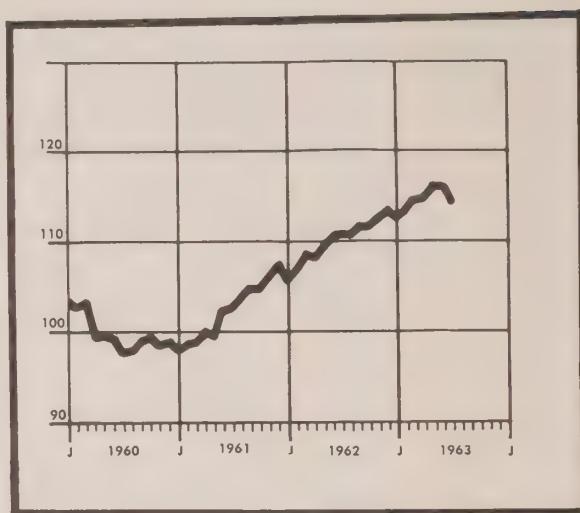
These tables also indicate a close relationship between the size of establishment — as measured by value added per establishment — and the level of productivity. In almost all cases where net output per employee is higher in Ontario, size of establishment is also higher.

In summary, Canada's manufacturing production is largely located in Ontario, and Ontario's production tends to be concentrated in large firms. Ontario produces nearly 60 per cent of Canada's durable goods, but these make Ontario more sensitive to changes in business cycles than other provinces. Some types of manufacturing industries will be found in nearly every community in Canada, but some products, particularly among the durable commodities, whose importance increases with rising living standards, tend to be produced only in Ontario.

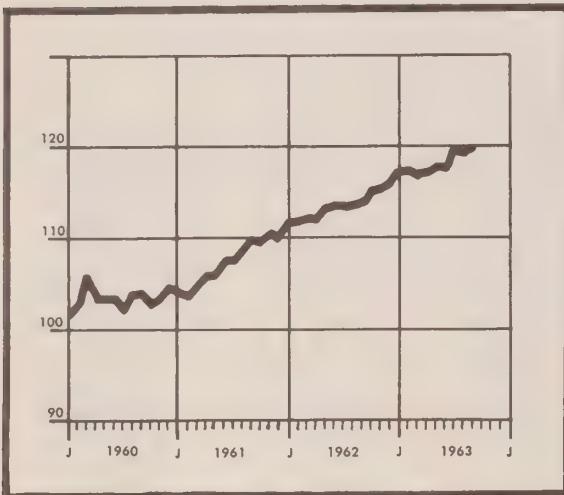
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959=100



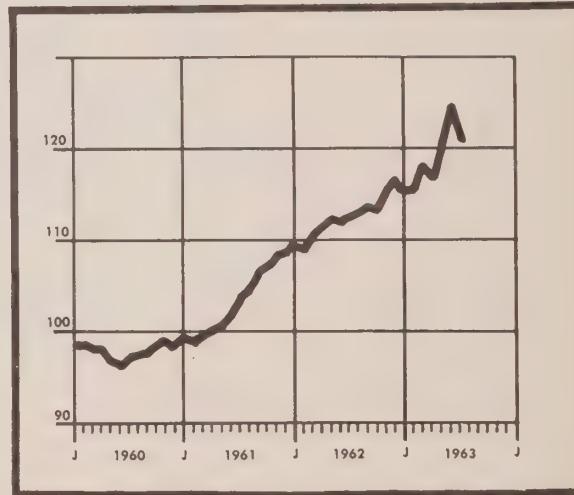
GROSS NATIONAL PRODUCT (CANADA)



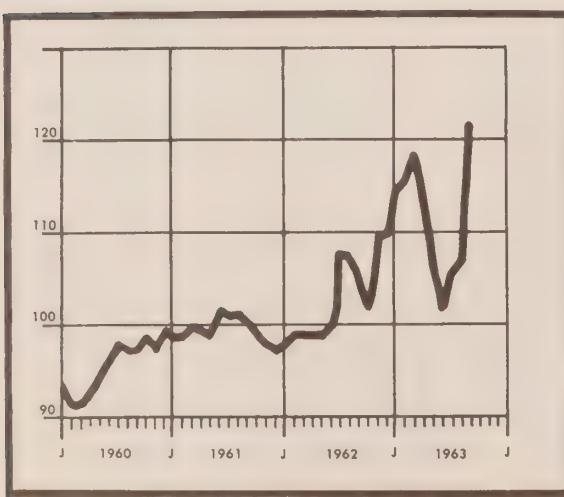
INDEX MANUFACTURING PRODUCTION (CANADA)



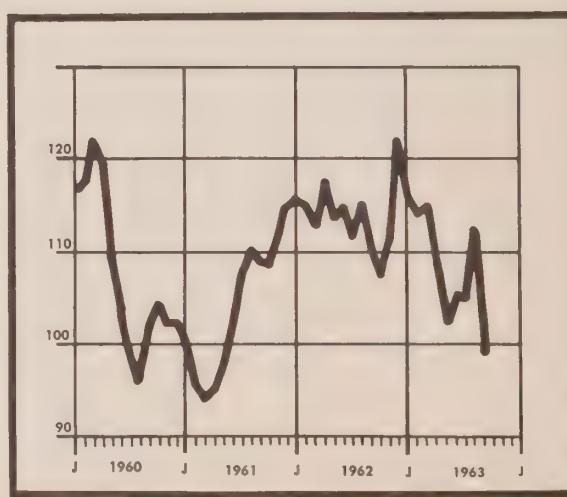
PRIMARY ENERGY DEMAND — OHPC
(ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

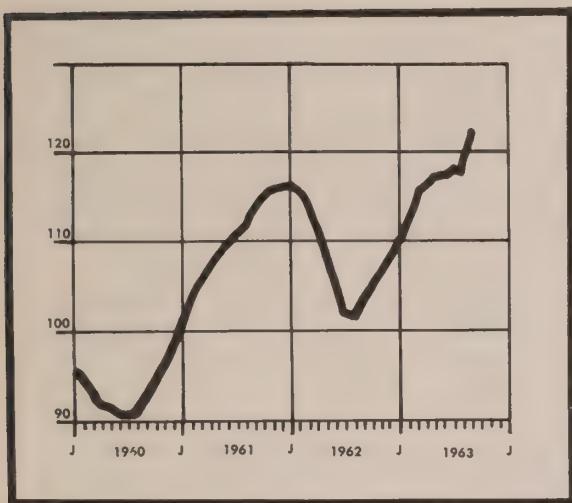


HOUSING CONTRACTS (ONTARIO)

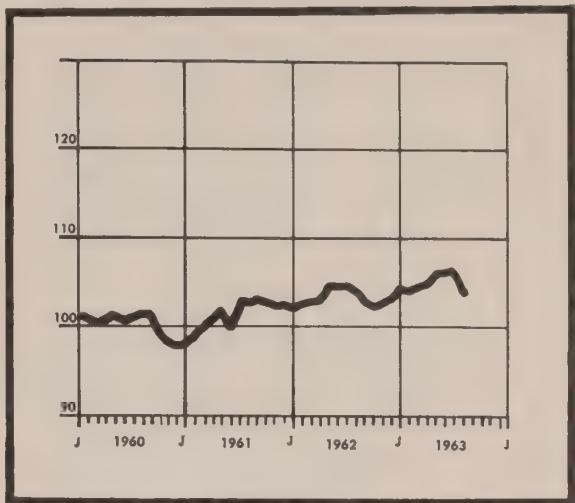


BUSINESS, INDUSTRIAL AND ENGINEERING
CONTRACTS (ONTARIO)

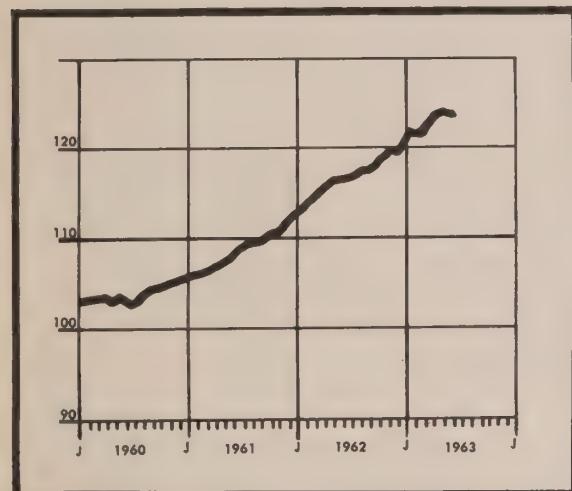
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



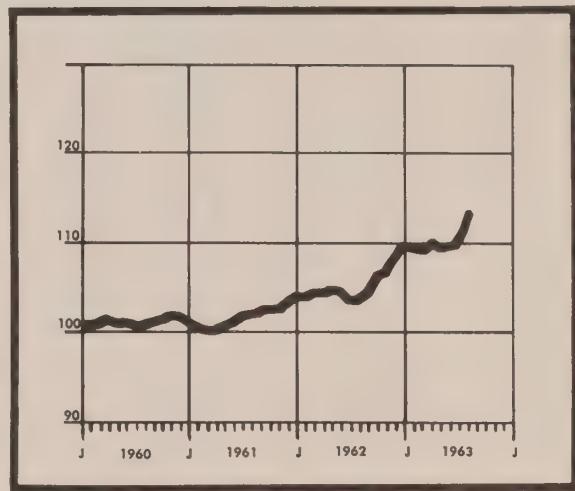
20 INDUSTRIAL STOCKS (T.S.E.)



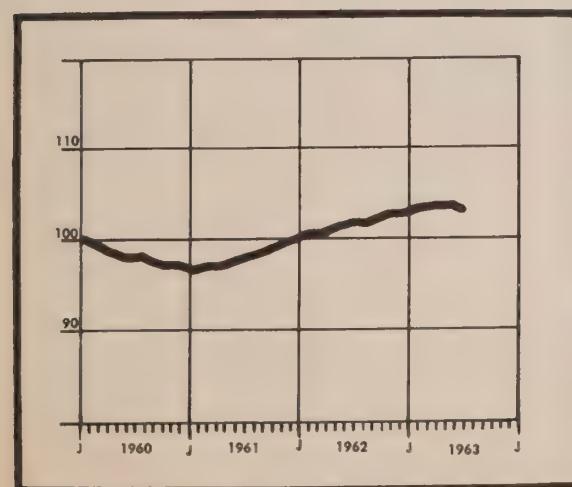
PRICES, INDUSTRIAL MATERIALS (CANADA)



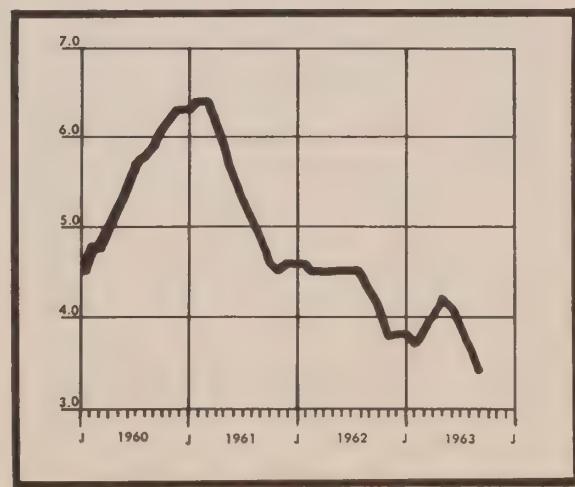
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(* Figures for Canada)

LEADING INDICATORS		1962 - - - - - 1963														
		July	August	September	October	November	December	January	February	March	April	May	June	July	August	September
Average Weekly Hours Worked In Manufacturing	(No.)	40.9	40.9	41.0	40.7	40.7	40.7	40.7	40.7	41.1	41.1	40.9	40.8			
T.S.E. Industrial Stock Index	1934=100	540.2	538.5	549.4	557.4	567.4	577.4	589.3	600.2	613.1	617.9	622.4	625.3	623.8		
Business Failures - Number	(No.)	82	81	83	85	86	86	83	81	85	88	90	93	97	90	98
Business Failures - Liabilities	\$ Million	6,487	6,119	5,538	5,739	5,298	4,182	3,694	3,618	4,936	6,003	6,586	6,783	7,540	5,334	7,546
New Orders in Manufacturing*	\$ Million	2,249	2,299	2,267	2,296	2,330	2,306	2,306	2,306	2,361	2,331	2,352	2,370	2,348		
New Dwelling Unit Starts	(No.)	3,361	2,878	2,797	2,783	2,875	2,839	3,015	3,325	3,628	3,665	4,076	4,193	4,112	4,344	
Housing Contracts	\$ Million	41.8	41.3	39.6	36.8	42.9	43.4	47.4	48.2	50.8	45.5	40.2	35.8	39.6	40.6	53.5
Business, Industrial and Engineering Contracts	\$ Million	79.1	83.5	76.8	73.4	78.8	92.9	84.7	81.7	75.3	66.8	73.8	73.4	80.1	62.6	
Money Supply*	\$ Million	15,382	15,046	14,998	15,143	15,210	15,267	15,391	15,563	15,576	15,755	15,629	16,005	16,107	16,049	16,118

INCIDENTAL AND LAGGING INDICATORS

ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED*

	Dividend Payments	Prices, Industrial Materials	Domestic Exports	Imports for Consumption	Foreign Exchange Reserves
1956=100	115.7	116.2	116.4	118.5	119.1
1935-59=100	251.2	249.5	246.7	245.1	247.7
\$ Million	546.6	540.1	479.6	602.6	586.1
\$ Million	559.0	521.5	468.9	586.3	437.5
\$ Million U.S.	2,114	2,131	2,445	2,614	2,608
					2,539
					2,663
					2,594
					2,600
					2,692
					2,712
					2,671
					2,501
					2,471
					2,568
					2,563
					120.4
					119.7
					119.3
					118.6
					120.8
					120.5
					125.3
					254.9
					254.8
					252.1
					487.7
					515.7
					592.8
					543.2

THE ONTARIO ECONOMY

The Ontario economic picture at the present time is good. In conjunction with overall North American activity, the Ontario economy continues to surpass earlier anticipations. Buoyed up by sustained activity in the automobile and steel industries, a high level of employment and favourable business conditions elsewhere in Canada and the United States, businessmen are responding with enthusiasm. Plans for new construction are multifold and the fear of large-scale declines in the availability of U.S. funds for Canadian development, resulting from President Kennedy's proposed interest equalization tax, has been premature. A sizeable issue of new private Canadian bonds was recently sold in New York and cleared the air of the uncertainty that had prevailed since the President's announcement. One significant dull spot in the Ontario picture was a September drop in retail trade. It is comforting to note, however, a parallel experience in the United States for September, followed by considerable improvement in October.

PRODUCTION

Productive activity, on a seasonally adjusted basis, is also encouraging. After an overall drop in July it recovered in August with practically all sectors advancing to nearly the record levels of May and June. Two of the most significant indicators of productive activity in Ontario, the automobile and steel industries, continue to forge ahead with near capacity operations. In both industries, production in every month so far this year has exceeded production in the corresponding months last year, so that total motor vehicle production for the first 10 months of this year was 21 per cent higher than in the same period last year and total steel production was nearly 14 per cent higher. There appears to be little let-up in sight for automobile production as sales continue to outstrip production, but steel production, although ahead of last year's levels, is exhibiting a slightly downward trend.

Total mining production, on a seasonally adjusted basis, turned upwards in August, after weakening in the late spring and early summer months. The principal reasons for this strength were advances in gold, copper and nickel production — all prominent industries in Ontario's mining sector.

Not all of the present manufacturing picture is bright. Manufacturers' new orders were down again in August for the second month in a row, on a seasonally adjusted basis, and manufacturing inventories, which have been rather stationary, declined a little. The drop in new

orders, if it persists another month, will indicate a downward trend. Nevertheless, primary energy demand in Ontario, one indication of current industrial activity, rose in September to a new high after easing a little in August.

EMPLOYMENT AND INCOME

Current levels of employment in Ontario indicate little slack in activity. Employment has expanded on a month-to-month basis for eleven months and has taken up most of the slack created by an expanding labour force. In the last six months especially, the rate of unemployment has been dropping. In October, it was 3.6 per cent of the labour force — down from 4.2 per cent in May.

Labour income has continued to rise, generating more purchasing power in the economy. In August, labour income in Ontario, on a seasonally adjusted basis, reached a new peak. Consumers enhanced their purchases further by expanding their indebtedness. In August the average family's debt was 7.5 per cent higher than it was a year earlier.

Offsetting some of the advantages was a rise in the cost of living in the following month. In September, the cost of living was only prevented from reaching a new high by a moderate decline in food prices.

RETAIL TRADE

For the first nine months, total retail sales in Ontario were 5.3 per cent higher than in the corresponding period last year. Automobile sales provided the biggest lift, rising 9.8 per cent, while grocery and combination store sales rose 5.2 per cent.

On a seasonally adjusted basis however, retail trade in Ontario has been slackening in recent months, while rising in the rest of Canada. In September, total retail sales dropped about 2.0 per cent from the previous month's level. Family clothing, shoe, furniture, appliance and radio sales all declined significantly in September, compared with September 1962. There was also a slight drop in grocery and combination store sales. The decline in apparel sales may be only temporary as consumers delayed their annual purchases of these goods this year.

CONSTRUCTION

Construction activity reflects the generally optimistic tenor of economic conditions at the present time. After some hesitation in the housing sector this summer, both the residential and the business, industrial and engineering sectors pointed upwards in October. On a seasonally

adjusted basis, new dwelling unit starts in Ontario reached a new high in August after hesitating in July. More currently, new housing starts in Metropolitan Toronto in October were 105.6 per cent higher than in October last year and for the first 10 months were 50.6 per cent higher than in the same period last year.

Housing contracts in Ontario are on a rising trend and in October reached a new high. As a group, business, industrial and engineering contracts rose in October for the fourth straight month but are still considerably below the peak levels of last winter. However, most of the current rise in this sector is the result of increased activity on commercial, engineering and other institutional projects. New industrial construction contracts are noticeably slight.

Recent contract awards of interest in Ontario included an \$11.6 million contract to Pigott Construction Co. Ltd. to build a new courthouse in Toronto, and a \$1.5 million contract to W. A. McDougall Ltd. of London to build a new Arts Library Building at the University of Waterloo. In addition, there were three very sizeable projects proposed for the future, which, if approved, will provide considerable construction activity. These were a \$30 million pipeline expansion by Union Gas Co. of Canada Ltd. from Sarnia to Oakville, an \$85 million apartment, hotel and office project for Toronto's waterfront between Yonge and York streets, and a \$20 million apartment, hotel and office complex at the intersection of Highway 401 and the new Spadina expressway north of Toronto.

FINANCE

Despite a slight tightening in the supply of loanable funds towards the end of October, attributable to fiscal year endings of five of the chartered banks, monetary conditions within the Canadian economy remained relatively stable.

Consolidation characterized activity on the Canadian bond markets throughout October as prices closed unchanged to fractionally lower on light trading. Short-term issues were off some 15 cents while medium and long-term maturities were generally unchanged to 50 cents lower in price on a \$100.00 bond. Institutional demand continues to be directed towards the purchase of new issues as opposed to outstanding bonds. For the first ten months of this year new Canadian bond financing has totalled \$9.7 billion as compared with \$8.3 billion in the comparable 1962 period. Among the recent new offerings was a \$50 million Province of Ontario 5½% 20-year debenture issue priced at \$98.00 to yield about 5.415%. Other sizeable new financings were borrowings of \$35 million by the City of Montreal and \$31 million by Metropolitan Toronto.

Prices of high quality equities on the Canadian stock exchanges retreated slightly from their recent highs as investor attention tended to be switched towards junior

and speculative issues. The volume of trading, however, continues light and an atmosphere of caution pervades all sections of the markets.

On Monday, November 4, The Toronto Stock Exchange commenced publishing a new T. S. E. Index, replacing its predecessor which had been in use for the past 29 years. The new index is based initially on 108 stocks. These stocks represent four major groups or components: Industrial, Gold, Base Metal and Western Oil and there is also an index for each of these groups. The new T. S. E. system of indexing is virtually identical with those used by the Dominion Bureau of Statistics and the Montreal Stock Exchange in computing their indexes. In all three cases, the formula used is patterned after one developed by Standard & Poor's New York-based investment service. The new approach uses aggregate market values instead of averaging current market prices of a group of stocks and relating this average to the average of their market prices in a pre-selected base period. As the new indexes include many more stocks weighted in importance according to their market values rather than market prices, they are expected to be more representative of the market and hence more realistic than their predecessors.

Canada's foreign exchange reserves continued to rise during October, ending the month at a level of \$2,581,400,000 — an increase of \$13.1 million over the month.

The Canadian dollar remained relatively stable in terms of the U.S. dollar with fluctuations being limited to a range of one-eighth of a cent.

FOREIGN TRADE

The effect of Canada's dollar devaluation is clearly shown in the improvement of Canada's foreign trade picture so far this year. It has been estimated that there will be a trade surplus with all countries for 1963 of between \$300 million and \$400 million, as against a surplus of \$155 million last year. Exports have expanded considerably, while imports, particularly those from the United States, have been held to about the same level as last year. For the first nine months, exports were up 8.2 per cent on the corresponding period last year, while imports were up only 1.5 per cent, and from the United States were up only 0.5 per cent. In September, exports, swollen by the huge wheat sales, were 22 per cent higher than in the corresponding month a year earlier.

In summary, the Ontario economy is closing out the year on a fairly optimistic note. Some slack is appearing in retail sales, which may prove to be only temporary once the Christmas rush begins and, new orders in manufacturing have been down for two straight months. However, employment and income are at very high levels, construction activity is turning upwards and most of the productive sectors remain buoyant.

THE FOREST-BASED INDUSTRIES OF THE NORTHEASTERN ONTARIO ECONOMIC REGION

J. D. BRODIE — *Forest Economist*
SPECIAL RESEARCH AND SURVEYS BRANCH
DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Half of the sawn lumber and more than one-quarter of the pulp and paper produced in Ontario originate in the Northeastern Ontario Economic Region.* Over eight thousand workers are employed by the forest-based industries in this part of the Province and at least an additional eight thousand derive income from logging operations on a full or part-time basis. Factory shipments of the forest-based industries are valued in excess of one hundred and sixty-two million dollars annually. Products manufactured include: groundwood and chemical pulps, newsprint and magazine papers, card-boards, building boards and platewood, lumber, veneer and plywood and specialty products. The importance of the forest industries is underlined by the fact that, on a national basis, they earn about thirty per cent of Canada's export dollars, — twenty per cent of which is accounted for by pulp and paper alone. These industries have offered a major contribution to the development of the North. Current industry and government plans for wood production, construction of new roads to resources and improved forest-management methods based on a sustained-yield policy will further strengthen the economic base of northeastern communities and increase growth opportunities for both new and established enterprises.

THE FOREST-BASED INDUSTRIES

The eight pulp mills currently operating within the region have a rated daily capacity of 315 tons of sulphate pulp, 955 tons of sulphite and semi-chemical pulp and 2,000 tons of groundwood pulp. A 200 ton daily capacity magnefite (magnesium-based sulphite) line is due to be brought into production in early 1964 at Kapuskasing. This process is capable of utilizing more poplar, jack pine, and sawmill chips than current sulphite processes and still produces a high quality chemical pulp. The use made of different types of pulp varies with their characteristics. Groundwood pulp is manufactured into newsprint and various other types of paper. Chemical pulp is used primarily as a minor component in newsprint papers. Some, however, is shipped out of the region for further processing in Southern Ontario and the United States. Long-fibred chemical pulps from this area are used to produce the highest quality tissue and pulp wadding.

The sawmill industry of the Nipissing, Timiskaming, Sudbury and Algoma Districts is supported by red and white pine and tolerant hardwoods, as well as spruce and jack pine. In the Cochrane District the industry depends mainly on spruce and jack pine and to a minor extent on balsam fir, poplar and white birch. The southern portion of Northeastern Ontario at present supplies a major proportion of the red and white pine cut in the Province.

The "other wood-using industries" group of the forest-

based industries in the Northeastern Region is composed of about 60 diverse enterprises. Most of these are small in size and utilize a limited amount of wood relative to the sawmill and pulp and paper industries. There are eight veneer mills in the region. These fall into two categories, (1) those using hardwoods to produce a relatively high-priced plywood suitable for panelling and furniture and (2) those using poplar to produce a low-priced plywood for sheathing and underlay board. Three particle board mills producing building board and plywood cores from chipped hardwood have been established in the region. Other plants in the area make building board and hardboard by means of a pulping process and are, therefore, classified as part of the pulp and paper industry. There is also a number of plants manufacturing small wooden items, furniture and millwork. Low-grade lumber is made into small clear cuttings, end and edge-glued into panels and sold for a variety of purposes.

Due to the amount of sawmilling in the area, there is a large supply of mill residue. Some of this residue is used by the mills themselves as fuel or in the manufacture of pickets and shade rollers. Many mills de-bark their logs prior to sawing and then chip the slabs and trimmings. These bark-free chips can then be sold to pulp mills. With more pulp mills investigating the feasibility of sawmill chip utilization, it may not be long before chipping is profitable for most large and medium-sized mills in the area.

Most of the large forest-based industries operate integrated logging divisions to supply their raw material. In addition, wood is supplied under contract by settlers and jobbers. The major pulp and paper company woodlands operations are unionized and wages average \$1.90 to \$2.60 per hour on a piece-work basis. The cost of labour on these operations has resulted in the adoption of many labour-saving (capital-intensive) innovations in the woods. Mechanized operations have resulted in a high output per worker. Sawmill, small contractor and settler woodlands operations, on the other hand, generally use more labour per unit of output. Many operate with a minimum of capital equipment and the average wage is much lower than on large-scale operations. Much of this work is also done on a piece-work basis.

Many communities in Northeastern Ontario owe their existence solely to the presence of a forest industry or a complex of forest industries. Several communities began as company towns. Over the last two decades, however, many northern towns have changed in character and are now partially or entirely independent municipalities. This change has been accompanied by a proliferation of private service industries and a gradual shift from company to privately owned housing.

In the past, woods employment has been seasonal, peaking in the winter months. For this reason, many woods-workers came to Ontario only for the cutting

*Comprises the Districts of Nipissing, Timiskaming, Cochrane, Sudbury, Algoma and Manitoulin.

season, leaving their families in their native Quebec. The pulp and paper companies have found that they can realize production economies by scheduling more of the cut in the summer. This is gradually leading to a stabilization of the labour force throughout the year. Many workers have moved their families to Ontario and commuting is becoming more prevalent. Workers live in town with their families and travel daily to their woods jobs in cars and buses. Although the commuting distance may be as long as 40 miles each way, the travel time is often shorter and less tedious than for city dwellers. Workers are paid a commuting piece-work bonus. As a result of this trend more of the woodlands-payroll purchasing power remains in Northeastern Ontario.

SUPPLIES OF TIMBER

The bulk of the timber cut in the Northeastern Economic Region comes from Crown lands with timber-cutting rights licensed to private companies. The management and administration of the forests on Crown lands is the responsibility of the Ontario Department of Lands and Forests, which maintains district headquarters at North Bay, Swastika, Sudbury, Sault Ste. Marie, Cochrane, Gogama, Chapleau and Kapuskasing. The Department employs foresters, scalers, rangers and clerical staff and, in addition, supplies casual employment in fire suppression, tree planting and winter-works forest-management programs. Each district office is also responsible for the scaling of timber cut on Crown lands within its district and the enforcement of the Crown Timber Act.

There are an estimated 59 billion cubic feet of primary growing stock in the Northeastern Region (35 billion conifer and 24 billion hardwood). Long-term forest-management plans are based on the yearly volume of cut timber which the forest is capable of replacing with annual growth. This volume is referred to as "allowable cut" and is calculated on a district and species basis. The allowable cut is about 490 million cubic feet of conifers and 510 million cubic feet of hardwoods. Present utilization (1961) is at the rate of about 19 per cent of the total allowable cut. In both the lumber and the pulp and paper industry, however, there is a marked preference for conifers, so that at present, 36.8 per cent of the allowable conifer cut is being utilized and only 3.1 per cent of the hardwood.

The species most heavily utilized relative to their supply are white and red pine. The cut of these prime lumber species has been steadily dwindling over the last half century. It is hoped that the present level of cutting (59.9 per cent of the allowable cut) may be maintained and gradually increased as young managed white pine stands reach merchantable size. The anomaly of a steadily declining output accompanied by only partial utilization of the allowable cut is the result of heavy cutting in the past which has reduced the supply of mature timber. Most of the annual growth now is occurring in stands of trees that will be too small to log for some time to come. The white pine industry is currently in a waiting period which should be followed by gradually increasing outputs. Spruce is the most prevalent conifer in the region and is comparatively heavily utilized

by both the lumber and pulp and paper industry — at present, 45.3 per cent of the allowable cut. Less than one-third of the allowable jack pine cut and only about one-eighth of the allowable balsam fir cut is now being harvested.

In hardwoods, 3.1 per cent of the allowable cut is utilized. There is much less poplar growing stock in the area than spruce but because of a shorter rotation and faster growth rate, poplar has a higher allowable cut. At present only 3.1 per cent of the poplar allowable cut is being taken. The allowable cut of yellow birch is being utilized at the rate of 14.4 per cent and maple at the rate of 5.2 per cent. The management of tolerant hardwoods involves the production of a great deal of material suitable only for cordwood or boltwood. In terms of high-quality sawlog and veneer material, therefore, the maple and yellow birch utilization figures are not as low as they would appear. The remaining hardwood species in the area are not used to any extent. White birch has an allowable cut of 151 million cubic feet — less than one per cent of which is utilized.

The supply of raw material for the forest-based industries in the Northeastern Ontario Economic Region is capable of supporting a considerably expanded level of activity. Over most of the area and for most of the species a high proportion of the growing stock falls in the mature and over-mature age classes. An accelerated rate of exploitation would, therefore, improve the distribution of the age classes and eventually result in the realization of more of the forest growth potential of the area. The supply of raw material is, of course, only one aspect to be considered in an expansion program. Community and industrial services, transportation, markets and labour force must also be taken into account.

GROWTH POTENTIAL OF THE FOREST-BASED INDUSTRIES

A projection of world demand for wood products made in 1955, for the Royal Commission on Canada's Economic Prospects, predicted a doubling of demand by the year 1980. The greatest expansion of consumption was forecast in pulp and paper products. Recent studies of increases in world literacy rates and living standards suggest that this early projection may have been conservative. The period of the late 1950's and early 1960's, however, has been characterized by a world-wide overcapacity in the pulp and paper industry. Demand is now catching up with capacity, however, and plans for expansion are being formalized. The Northeastern Ontario pulp industry is founded on high quality groundwood pulp and the very highest quality long-fibred sulphite pulps made from spruce. Demand for these products is expected to increase, especially if steps are taken to tailor the paper products to the requirements of special markets and uses. The large pulp and paper mills of Northeastern Ontario were established primarily to serve the export market in the United States. Much of the original capital was American and the product was tailored to the needs of large American newspapers. The introduction of computer-control on paper-making machines will facilitate faster setting-up, a lower proportion of "break" in the

early stages of a run and therefore shorter economically feasible runs. Concentration on the specific needs of small but growing markets could augment growth in the industry as a whole.

The pulp and paper mills of Northeastern Ontario have timber-limits capable of supplying spruce pulpwood at a greatly accelerated rate. If the possibility of further developments in processes using more poplar, jack pine and white birch is considered, the forests could be utilized at well over three times the current rate. This is taking into account the fact that some of the allowable cut is in stands of too low a density for profitable logging in the foreseeable future. Because of its relationship with the market structure of both the newspaper industry and the developing package and container industry, expansion of the paper industry will probably continue to take place at a rate attuned to or even in advance of market demand. Northeastern Ontario with its abundant supply of timber and hydro-electric power, its developing transportation and communications systems and its established pulp and paper enterprises with their trained technicians and administrators, should share in this expansion.

The competitive advantage of the Northeastern Ontario sawmill industry over southern Ontario competition lies in its vast supplies of timber which permit comparatively large-scale operations. The competitive disadvantage is the cost of transporting lumber to market. Since 1949, there has been a steady decline in the number of sawmills in the area. Most of the mills going out of business have been small. Several large mills are currently carrying out extensive expansion and modernization programs.

British Columbia mills can supply lumber to eastern markets at prices highly competitive with eastern production. Western mills are logging stands of large-size timber. Mill modernization has progressed to a greater extent in the West and the mills are on the average much larger. This enables them to offer a good selection of grades, widths and lengths. Most of the western production is kiln-dried. The modernization programs of the eastern mills are incorporating all of the western production efficiencies applicable to eastern species and conditions. These programs are aimed at reducing production costs through both production efficiency and improved product quality.

Future expansion of the lumber industry depends on its ability to control rising production costs and thereby stabilize the price of lumber relative to other commodities. A continuing upward trend in the price of lumber will stimulate the use of other building materials and could result in further reductions in per capita lumber consumption. This will result in lumber consumption increases being much less than proportionate to population increases. Output in the lumber industry is shifting in increasing proportion towards the large producers. The Northeastern Ontario Region is able to support these large-scale operations due to a relative abundance of sawlog quality timber and should, therefore, benefit from this trend.

The other wood-using industries of the Northeastern Economic Region produce a gross value of products that

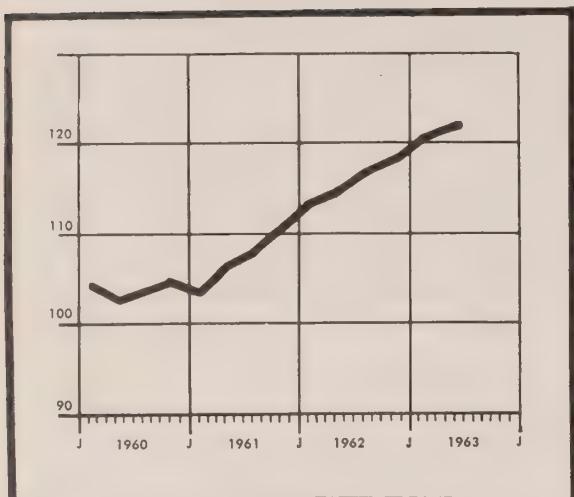
is less than half that of the sawmill industry and only one-twelfth that of the pulp and paper industry. Because of the small amounts of wood utilized by these wood-using industries, the timber stands of the area could support a vast increase in the number of enterprises. Except in the case of a few products, however, supply of timber is not the major consideration in locating a plant and many firms subject themselves to higher costs of raw material procurement in more sparsely timbered areas in order to be closer to their markets. There are some mill-work, furniture and wood specialty producers in the region. Most of these firms have been established to take advantage of favourable local wood and power supply or favourable labour and marketing conditions. Such operations can be easily established as favourable conditions arise.

The manufacture of specialty products by existing primary wood-users is an area of the industry that appears capable of sustaining expansion. Often economies of scale can be realized by logging for such products in conjunction with regular operations. Slack resources (unused labour or machine time) can also be used to manufacture specialties. Many producers have started small operations utilizing residue or quantities of their primary product (lumber or pulp). The products so produced can be marketed through the firms' existing promotion and distribution system. A further example of such expansion is the small sawmill operator who branches out into the camp and cottage construction business. These operators often use the same labour year-round in logging, saw-milling and construction.

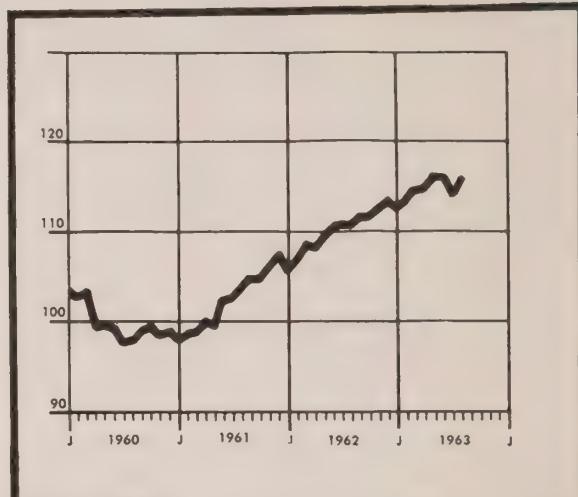
Technological advances during the last two decades have permitted the industrial use of new wood species and facilitated the conversion of a larger portion of the forest crop into saleable products. Improved road-construction and trucking equipment have provided potential access to most of Northeastern Ontario's forest area. Innovation will probably continue to be a precursor of forest industry expansion. Transportation of chipped wood through pipelines or perhaps small nuclear-powered mills for primary forest product processing at several isolated points in a large timber limit are possible areas of radical future transformation.

In summary, during the past fifty years the forest-based industries of Northeastern Ontario have been built into an industrial complex with annual factory shipments valued at over 162 million dollars (1960). The building of this complex has brought to the area transportation and communication systems, modern organized communities and community services, and a host of professional people, technicians, administrators and skilled workmen. This development has provided the nucleus around which secondary manufacturing and service industries have been established. The forest resources of the region are capable of supporting a greatly expanded scale of operations and the institutional, community and community service basis for expansion is already there. With world demand for wood expected to double within the next two decades, the Northeastern Ontario Region should experience a rate of forest industry growth at least proportional to its current share of national and international markets.

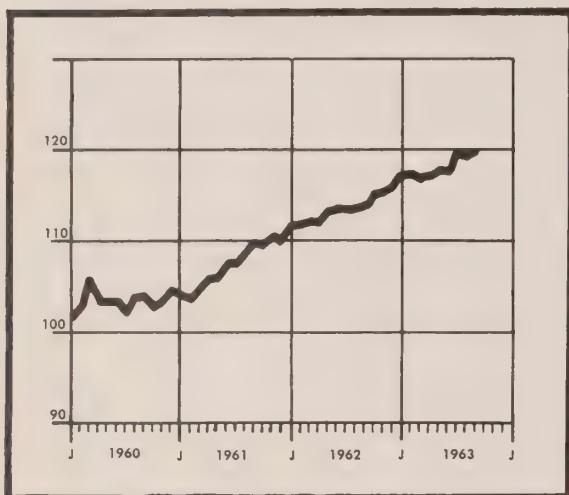
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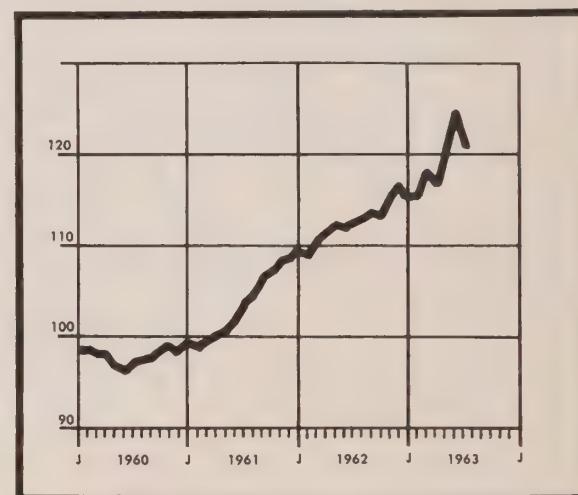
GROSS NATIONAL PRODUCT (CANADA)



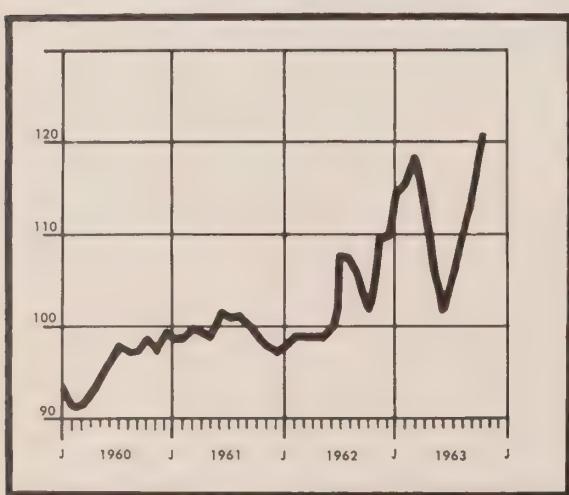
INDEX MANUFACTURING PRODUCTION (CANADA)



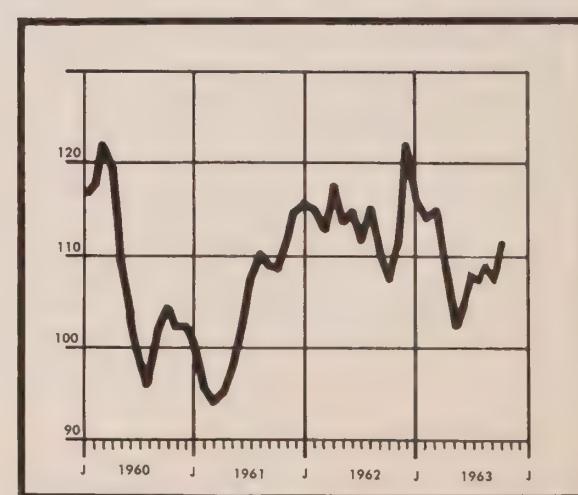
PRIMARY ENERGY DEMAND — OHPC (ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

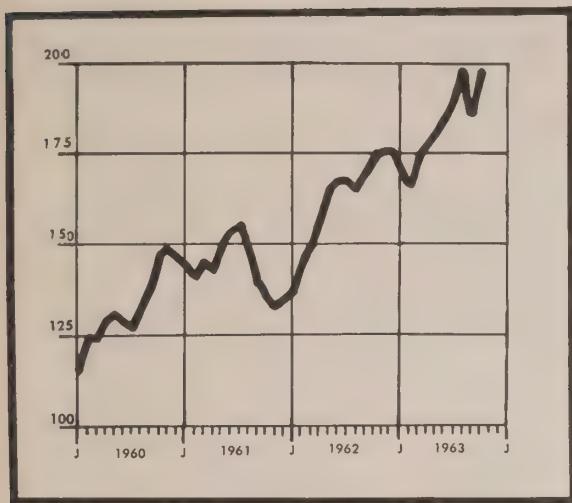


HOUSING CONTRACTS (ONTARIO)

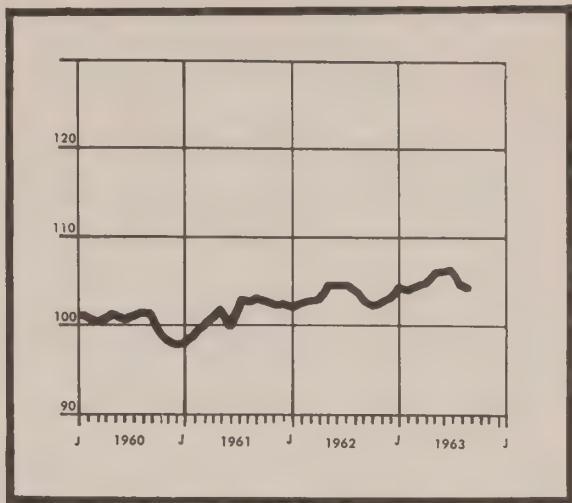


BUSINESS, INDUSTRIAL AND ENGINEERING CONTRACTS (ONTARIO)

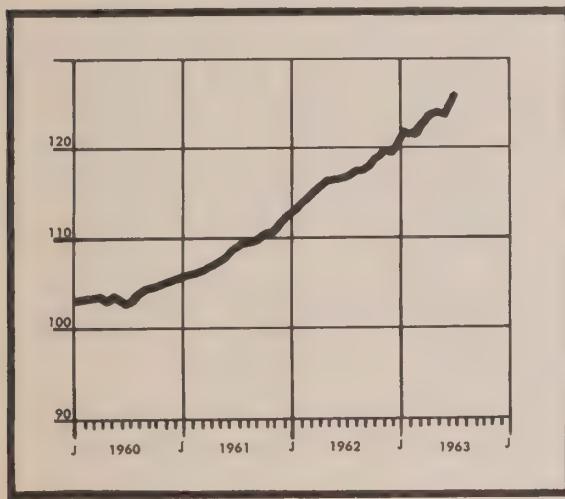
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



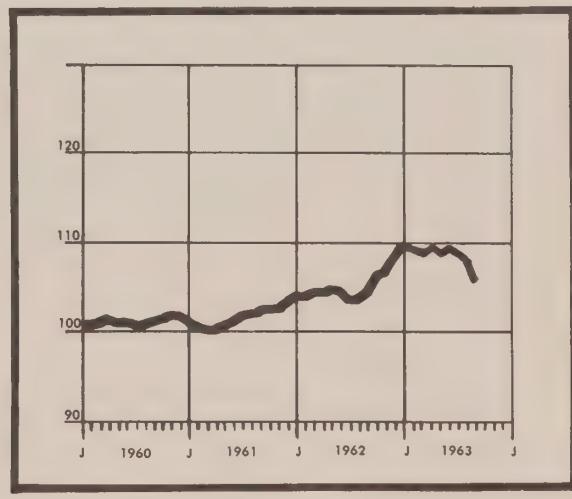
BUSINESS FAILURES — NUMBER (ONTARIO)



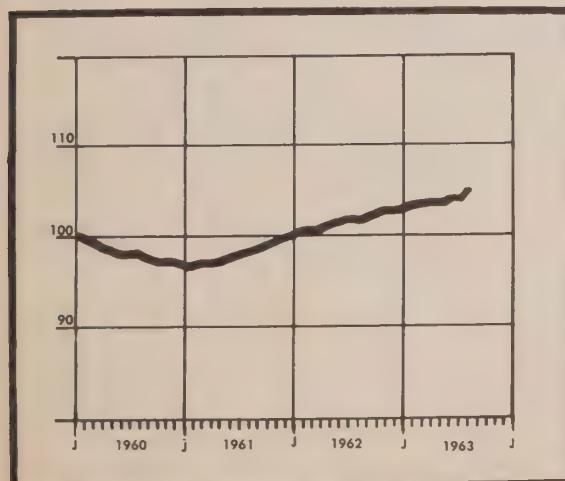
PRICES, INDUSTRIAL MATERIALS (CANADA)



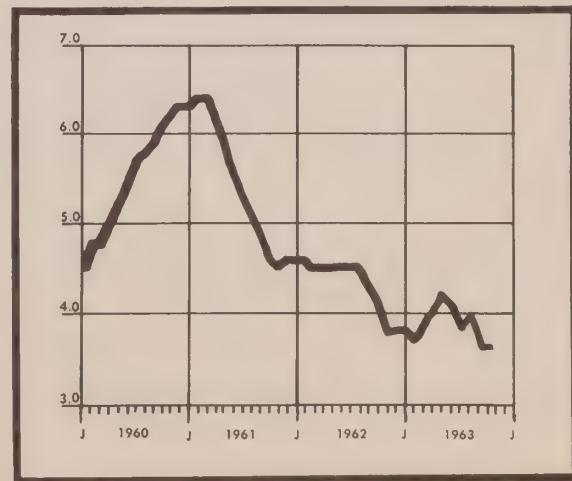
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED
(Figures for Canada*)

(Figures for Canada*)

THE ONTARIO ECONOMY

The Ontario economy, similar to the whole North American economy, experienced only a temporary setback with the death of President Kennedy last month and at present is continuing to advance at a healthy pace. At year's end the economy looks forward to a sustained period of rising activity.

Canada's gross national product in 1963 is expected to be 5.7 per cent higher than last year and to rise another 4.5 per cent in 1964. It has been estimated that Ontario's gross provincial product in 1963 will be 5.9 per cent higher than in 1962 and rise another 4.4 per cent in 1964. Ontario's average rate of growth during the past 13 years was 3.9 per cent.

PRODUCTION

The most recent measure of productive activity, the seasonally adjusted index of industrial production in September, indicated a fairly broad advance in industrial activity. Outstanding advances were in the mining and durable goods sectors. Mining activity advanced 2.7 per cent over the August level, particularly in the gold, copper and iron ore sectors, all important in Ontario's mining industry. The principal strength in the durable goods sector was found in the iron and steel and automotive industries, major components of Ontario's industrial economy. Nevertheless, long-term trends in the steel industry indicated a slightly downward bias and the most recent report on automobile production also indicated a slight drop, borne entirely by General Motors.

On the whole, manufacturing activity is encouraging. In September, manufacturing shipments, on a seasonally adjusted basis, were 7 per cent higher than in the preceding month, after falling in July and August. New orders, moreover, an indication of future activity, also rose 7 per cent from the previous month.

Further productive activity in Ontario can be expected by happy events of the past few weeks. The Studebaker Corporation of Canada at Hamilton, Ontario, can now be expected to increase its output of cars from about 8,000 units per year to nearly four times its current rate. On December 9th, 1963, the Studebaker management decided to transfer their entire automobile production to the Hamilton plant. The U.S. automotive operation has been losing money for the last four years, compared with a successful venture in Hamilton. Factors in favour of the Hamilton plant are also the cheaper Canadian dollar, lower wage rates, and the advantage of

a tax rebate on imported parts for Canadian cars built for export. Already 300 additional employees have been contacted for work in the plant.

Production at the de Havilland plant at Malton, Ontario, will be expanded with Trans-Canada Air Lines' decision to purchase six new DC-9's from the Douglas Aircraft Corporation in California, as part of its initial plan to renew its entire fleet. Since the de Havilland plant produces the wing and tail section for all DC-9 aircraft, the new order will extend the benefits already enjoyed at Malton. Within the next 12 to 18 months about 1,375 additional persons will be taken on for this job.

Trans-Canada Pipe Lines Ltd.'s \$50 million line expansion in 1964 will necessitate further steel orders from Ontario. Trans-Canada's policy is to buy as much equipment in Canada as possible. Therefore, skelp steel required for the line will more than likely come from the Algoma Steel Company at Sault Ste. Marie and the Steel Company of Canada in Hamilton.

Mining production in North-western Ontario will be increased by the new \$15 million iron ore processing and pelletizing plant at Steep Rock Lake at Atikokan, Ontario, to be built by Caland Ore Company Ltd. Due to the high iron ore content in the rock of that area, the Caland plant will be the first in the world to pelletize iron ore directly from its natural state.

The federal government's recent announcement of a defence cutback is not likely to have any serious long-term effects on the Ontario economy. The scrapping of the "Bobcat" may be the only item which will impair present production. The closing of some stations and other military operations throughout Ontario will be largely offset by expansion of others.

EMPLOYMENT, INCOME AND CONSUMPTION

The high level of productive activity which has been maintained throughout the province in recent months has improved employment opportunities. Industrial employment has advanced steadily, reaching a new high in September. Total employment in November also reached a new peak, providing jobs for the continuously expanding labour force, which has been swollen recently by a growing proportion of teenagers. The rate of unemployment on a seasonally adjusted basis has been maintained at the lowest level since 1957. In November it was 3.5 per cent of the labour force.

In addition to a rising level of employment, purchasing power within the economy has been expanded with a rising level of earnings. Average hourly earnings in manufacturing have risen steadily throughout the year, and total labour income in September was at a record high.

Retail trade on a seasonally adjusted basis, although down slightly in October, remains brisk. Major consumer purchases still include motor vehicles and grocery and combination store purchases. Family clothing and shoe sales remain depressed. In more recent weeks, the approach of Christmas has stimulated home appliance sales and department stores have noticed a rise in purchases of toys, particularly of Canadian products.

Offsetting some of the gains to consumers was another rise in the cost of living during October, particularly price increases in groceries.

CONSTRUCTION

The present high level of business activity is reflected by an upsurge in business and engineering construction. Housing construction which has been stimulated recently by the federal government's winter bonus plan has declined a little. In November, housing contracts dropped back to the earlier summer levels and new dwelling unit starts slipped a little in September.

Significant new construction contracts in Ontario include the construction of a \$5 million tire-cord plant for the Dominion Rubber Company Ltd., at Lindsay, Ontario, and a \$11.6 million contract to Pigott Construction Company to build a new court house on University Avenue in Toronto.

In the residential construction field, the most outstanding new project approved was the \$17 million Alexandra Park site in Toronto, to be started in 1964. The 72 acre project includes combined land clearance and rehabilitation, and the construction of a park, school facilities and a public library.

FINANCE

The supply of loanable funds on the Canadian money market remained relatively limited throughout November despite the total supply of money reaching an all-time high of \$16,730 million on November 22. This situation reflected to a certain extent an unwillingness on the part of investors to commit funds until the terms of an awaited \$300 million Government of Canada refunding issue were announced at month end.

The volume and value of trading on the Canadian bond markets were comparatively light and activity for the most part was concentrated on new offerings. The highlight of November trading was the afore-mentioned \$300 million Federal Government refunding issue made up of \$225 million 1-year $3\frac{1}{4}$ non-callable bonds due December 15, 1964 and \$75 million 3-year $4\frac{1}{2}$ non-callable bonds due December 1966. The issues were priced at \$99.15 and \$99.85 to respectively yield 4.13%

and 4.55%, the latter issue being an addition to a \$175 million issue dated September 15, 1961. The immediate success of these and other new provincial and municipal financings resulted in modest price improvements in all sections of their respective markets.

New Canadian bond financing during the first eleven months of 1963 totalled \$3.5 billion, a decrease of 12.2 per cent over the \$4.0 billion raised in the same period last year.

Price fluctuations of high quality equities on the Canadian stock exchanges were confined to a narrow range until news of the tragic assassination of President Kennedy. The almost immediate closure of the various stock exchanges and the delay in their re-opening gave investors full opportunity to take a rational attitude and to weigh carefully the implications of what has been referred to as an incredible sequence of developments. As a consequence, when the markets re-opened, virtually all selling pressures had been dispelled and an immediate recovery of previous price losses resulted. Since that time, trading activity has been on the increase and upward price adjustments common in all sections — reflecting to some extent the strong performance of the New York stock exchange.

Canada's foreign exchange reserves continued to rise during November ending at a level of \$2,631,000,000 — an increase of \$49.6 million over the month.

The Canadian dollar remained relatively stable throughout November, being quoted in the neighbourhood of 92.7 cents, equivalent to a $7\frac{3}{4}\%$ premium on the U.S. dollar in Canada.

FOREIGN TRADE

The foreign trade picture this year is likely to be better than for any year since 1952. At the end of October, Canada's trade surplus was valued at \$249.6 million — about \$50.4 million short of the predicted total for the whole year. This figure does not include exports to the Soviet Union which began in November. Nevertheless, wheat sales to Belgium, France, West Germany, Poland, South Africa, Japan, and Yugoslavia account for a large portion of this surplus. Another major increase was in manufactured commodities, providing a good deal of business to Ontario industries.

Of interest to Ontario industry was an agreement between Canada and India to build a \$70 million Canadian-designed nuclear power plant in India, similar to the station being constructed at Douglas Point, Ontario. The Canadian General Electric Company in Peterborough, hopes to secure contracts for some of the equipment to be used in this plant. In addition, the plant in India will open up a new market for Canadian natural uranium fuel rods and heavy water.

In summary, economic conditions in Ontario continue remarkably buoyant. There are few, if any, signs of slack. The production and construction sectors are providing remarkable strength. Most of the leading and major indicators at the present time are pointing upwards.

ECONOMIC DEVELOPMENTS IN THE DEPARTMENT OF HIGHWAYS

IRMA E. PATTISON, M.A.

Economist

DEPARTMENT OF HIGHWAYS

INTRODUCTION

In Ontario and in Canada as a whole, social scientists have given limited attention to roads and road transport. The building of roads has been considered the prerogative of the engineer and other phases of highway operations have been included, sometimes as an afterthought, within the broad framework of the transportation industry.

Necessary concentration on building good roads to provide arteries for the ever-increasing stream of motor vehicles in Ontario left neither time nor resources for contemplation of the impact of highways on the economy. In recent years increasing awareness of the significance of highways in the progress and prosperity of the Province has directed attention to the services provided to communities by the network of roads. The widespread ownership of motor vehicles and the use of highways as commercial roadbeds and by the general public increases the complexity of highway transportation, and the ramifications of highway operations, and the area in which the engineer and the economist have a mutual interest is gradually emerging.

It is well to remember that every mode of transportation receives government assistance at some level. Pipelines have been granted financial aid for construction and various types of preferential treatment; railroads receive subsidies, and right-of-way and tax concessions; shipping benefits from navigational aids, port facilities, deepened channels and canals; airlines, sometimes subsidized by governments, have terminal facilities provided as well as meteorological services and other assistance; and in Canada, provision of highways is an accepted governmental responsibility.

PUBLIC FINANCE

In recent years the vast expenditures of public funds on highways and roads and the ownership of motor vehicles have been interpreted as a symbol of progress, and demands for more and better arteries continue. Prior to 1918 less than 10% of total Provincial expenditures was devoted to roads, apart from a brief flurry between 1912 and 1915. From 1919 on this percentage became increasingly significant reaching a peak of 33.95% in 1957, and gradually settling back to the 25-

26% level which is about average across Canada. The actual sums involved show a more dramatic increase in absolute terms, the pre-war peak of over \$40 million in 1938 being dwarfed by the post-war expenditures that soared to over \$248 million in 1960 which in terms of a constant dollar based on 1949=\$1.00, was \$193 million. These figures do not include expenditures by county, township, or municipal councils on local roads and streets which may be part of a highway and to which provincial subsidies may represent as high as one-third of the Department's yearly expenditures.

The extent to which road-user revenues should pay highway construction and maintenance costs, whether or not such revenues are directly transferred to the highway authority, and the proportion of costs that may be attributable to taxpayers in general is a thorny problem. If roads must be built or highway capacity enlarged to provide in part for such public services as police, fire protection and postal services, the case is strong for contributions from the public treasury.

The total capital investment of Ontario citizens in highways has reached enormous proportions in relation to the population. The costs involved in expanding certain roads, reducing access to major arteries and providing service roads for bordering communities, as well as constructing new roads, among other factors, emphasize the importance of developing and clarifying economic concepts applicable to this mode of transportation; and determining the validity of such investment in relation to the overall capital structure of Ontario's economy.

Such techniques as "cost benefit" and "rate of return" have been developed in efforts to demonstrate the relative merits of various projects, but some of the factors used, such as accident costs and the value of time savings, are highly controversial. These concepts, in themselves, do not measure the impact of highways on the economy as a whole, nor shed light on the efficacy of public expenditures on roads.

FUNCTION OF HIGHWAYS

The economy of a nation is dependent on and conditioned by transportation, and progress may be gauged by the efficiency with which goods and people are moved, and the degree of intercommunication that exists.

Highways of some type would be required as a means of access between locations even if they had no specific commercial use. However, they have become an integral part of the transportation system, and exercise a social impact not common to other transport media in their dual role of public utility and commercial roadbed. They differ from other forms of transportation in that, except in rare instances in Ontario, there is no direct charge for their use. They have become the major transport medium for the movement of people and of increasing importance in the shipment of goods.

Highways permit the satisfactory movement of people at will, either individually or in considerable numbers, over the widest travel areas on land. They stimulate contacts between major populated and industrial areas, and bring farmers and others closer to markets. They also encourage more efficient and satisfactory location of industry and facilitate overland mobility. They permit unexcelled flexibility for short haul or long haul (overland) movement for urban and rural delivery, and for types of product carried, except for low-cost and/or high bulk commodities, over as wide an area as the existing road systems permit. They have revolutionized transport by providing for the introduction of new dimensions in the movement of goods and, by greatly intensifying competition, have contributed to the desirable economic goal of reducing distribution costs. Time-honoured concepts have been revised, of necessity, and combined methods introduced such as containerization, piggy-back and fishy-back, that may provide the best in transportation at the lowest cost.

UNIQUE POSITION OF MOTOR TRANSPORT

Individual ownership of the "means" of highway transportation is on a much broader scale than in other forms of transport with the result that some media have lost a significant portion of their passenger traffic. The commercial movement of people via highways is not significant either, as the privately-owned automobile has superseded commercial carriers of any type.

Highways provide the roadbed, the right-of-way, for the trucking industry which has experienced fantastic growth in the course of a few decades, and proved in the early fifties, as a result of the rail strike, that it could keep the economy moving. Ease of access between factory and retail store, between parent plant and subsidiaries, between sources of production and distribution outlets generally, has encouraged trucking companies and individual owners to expand operations and individual firms to own fleets of trucks. Shipper preferences and aggressive promotion have resulted in the evolution from light panel trucks to multiple-axed tractor-trailers of transcontinental range.

Of interest, economically is the effect of trucking operations on highways, and much controversy has re-

sulted from inconclusive attempts to determine additional costs in road and bridge building and improvements necessitated by the use of heavy vehicles. The appearance a few years ago, for instance, of highway "trains" caused concern over the bridge structures on certain roads that may be traversed. It was important to learn how many of these combination carriers were operating in Ontario, what products they transported, the highways travelled, and to what extent and in what time period their numbers may increase. Study revealed that few of them were in use and were confined to the movement of certain products, that expansion in that particular type of operation was unlikely and that, with the fifty-foot length restriction on vehicles in Ontario, the introduction of such "trains" into other areas for other products would not be practical.

ECONOMIC DEVELOPMENTS

The greatest advances to date in an economic approach to highway operations in Ontario are in highway planning. It is believed that a good network of roads now exists to satisfy current needs, and that future road building and major improvements should be justified by knowledge of present and future conditions in the areas affected.

Some evidence exists of economic changes in a community or area resulting from the opening of new roads, re-routing of a specific highway or expansion of the vehicle-carrying capacity of an existing one. This has enlivened interest in the nature and scope of current economic research and its future in relation to traffic and highway needs. The emphasis is of a different nature from the normal economic approach, as certain developments of importance in assessing the economy in general, such as expansion of power facilities, have little significance from the highway point of view. On the other hand, enlargement of specific industries employing hundreds of workers or the construction of a shopping plaza, necessitating the expansion of existing highways or even the construction of additional arteries, are given proportionately greater weight than their role in the overall economy may warrant.

As economic growth and diversification have encouraged highway expansion, so the building and improving of highways affect economic development in the communities through which they pass, or may by-pass, depending on existing conditions and the resource potential in the area. The role of highways should be considered in relation to the agricultural, industrial, commercial, residential and recreational development of an area or region, and to the total transportation services available.

Traffic counters reveal the number of vehicles each hour that pass a point on a road location, and origin-

destination surveys provide important data for determining travel patterns and trip purposes. The correlation of such data with economic activities is now under consideration. In the Niagara Peninsula, for instance, comparison of the number of jobs existing in various areas with the number of residents listed as employed revealed significant differences. In the north-western sector of the region very few jobs were available yet hundreds of residents were employed. Traffic and origin-destination data revealed that travel into the Hamilton area from this sector was very heavy. A breakdown of work trips should determine the destination of these trips and their identification with specific economic activities thereby established. The potential growth or possible decline of these activities would have a significant effect on future highway requirements.

Consideration of population densities in the Peninsula showed that the dispersal of people into the rural areas was not due to over-crowding in the urban centres, nor could it be attributed to an appreciable degree to the locating of industrial establishments outside urban boundaries. The rural non-farm population increased from 52.1% of total rural population in 1956 to 66.3% in 1961. Again travel patterns indicated that it was due in large part to the existence of a good network of roads providing accessibility. It was also apparent that if this "sprawl" continued uncontrolled, the demand would grow for improved and expanded roads which would encourage further urban sprawl.

Traffic on roads in a region may be "through" traffic and its growth determined by factors, or variables, in the external areas. It may be inter-regional, that is, originating beyond the regional boundaries and destined to a location within the region, or vice versa; or it may be intra-regional. For regional studies traffic must be separated into these categories, then further segregated according to trip purpose related to specific economic activities. The ultimate breakdown would be by type of vehicle. Once the correlation between these components of traffic and specific economic activities is established the growth of traffic may then be based on economic potential.

At present, much of the required data for such regional studies is not available and such variables as population, employment provided, motor car registrations, persons per car ratios, income per capita, industrial, commercial and residential assessments and floor areas of existing establishments may be utilized. Of great importance are the land-use plans, and the existence of official plans in some communities is extremely helpful. The extent to which shopping centres, recreation areas, industrial and commercial establishments and large residential developments attract traffic may determine the road services required, and measure the adequacy or otherwise of the present arteries. Expansion in any of

these attractors provides an indication of future highway needs.

Highway expansion has emphasized the significance of land-use, and the widening and improvement of roads has encouraged residential construction on former farm lands remote from public transit facilities. Vast shopping centres with acres of parking space have been constructed to serve the needs of sprawling communities with highway connections. This "ease of access" has been the keynote for the decentralization of industry from cramped urban locations to one- and two-storey buildings adjacent to highways. The concomitant impact on the labour market and the mobility of labour has wrought drastic changes in the economic welfare of large sections of the population. Migrations to suburbs and to employment opportunities have altered population densities and travel patterns in many areas.

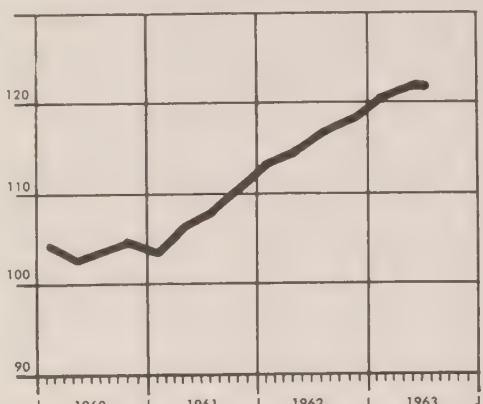
These changes engendered by highways have also resulted in uneconomic use of land in some areas. Good agricultural land, sometimes irreplaceable, has been invaded and divided into building lots and industrial acreages, and farming operations are being relegated to less productive land. The need is urgent for more comprehensive planning throughout the Province, and highway expansion may be geared to such planning. There is no plethora of good agricultural land in Ontario and steps should be taken to preserve such land for its most productive use, economically. Urban development and agriculture may exist compatibly side by side, with agricultural green belts between satellite communities ensured by realistic assessment provisions.

Road improvements may involve not only the widening or re-design of curves but re-location of the highway in some instances. The economic impact of a change in route, of by-passing a populated area should be understood before major improvements are instituted. Limiting the access to a road may affect seriously adjacent established businesses and residential sites, requiring construction of service roads for the local traffic.

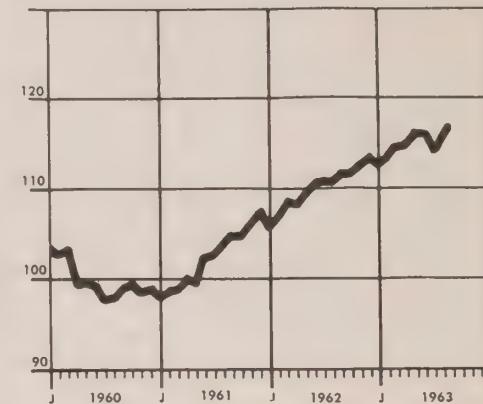
SUMMARY

From the dirt and corduroy roads providing access between communities little more than a century ago, highways have developed into multiple-purpose paved arteries adjusting to new situations in an expanding economy. From supplying local needs they have acquired national and international dimensions. From two-lane to four-lane to six-lane roads and now a twelve-lane section of fifteen miles, from ingress at every sideroad to controlled and limited access, from uncontrolled crossings to stop signs to elaborate interchanges, highways must now be designed to serve an expanding population in an increasingly varied economy. These functions are specifically engineering, but the end result, the use of the road, the complexity of purposes it must serve in the future, its ultimate value, is economic in essence.

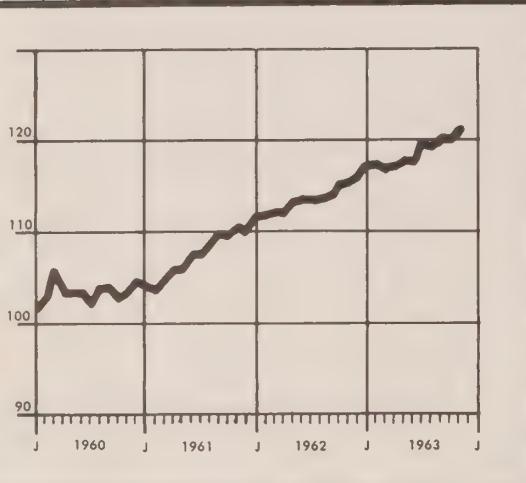
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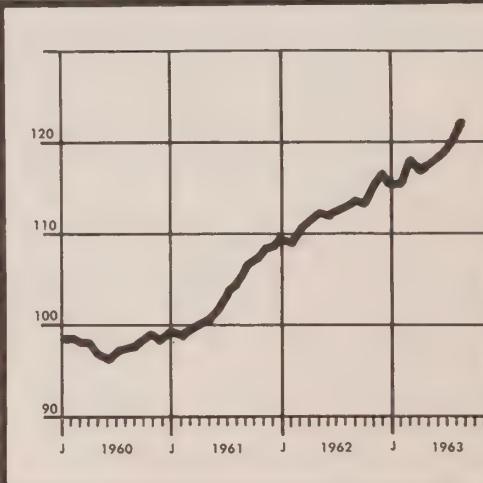
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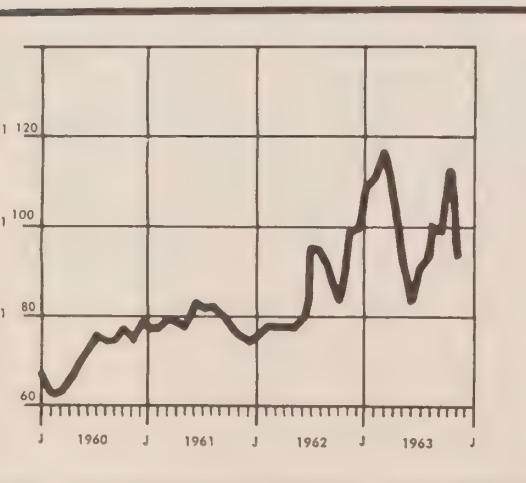
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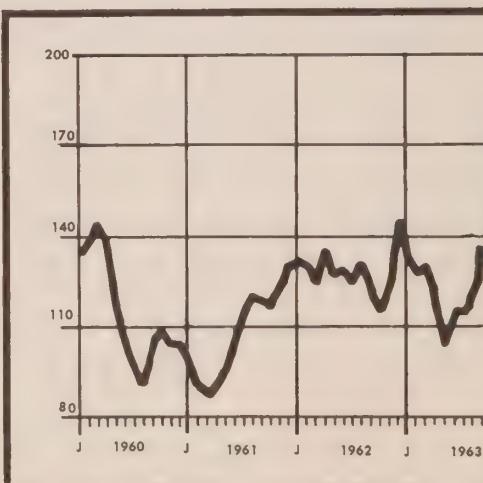
PRIMARY ENERGY DEMAND — OHPC
(ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

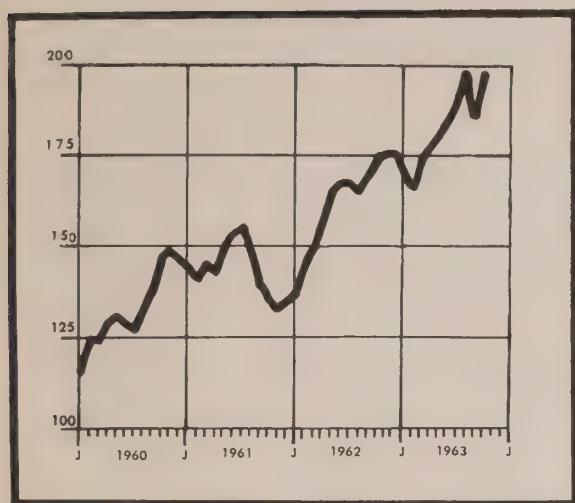


HOUSING CONTRACTS (ONTARIO)

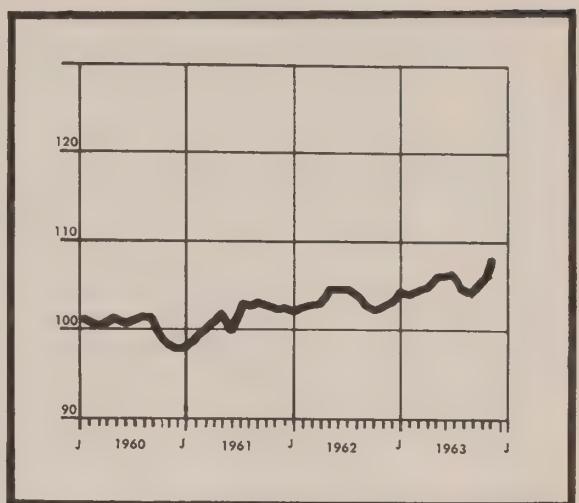


BUSINESS, INDUSTRIAL AND ENGINEERING
CONTRACTS (ONTARIO)

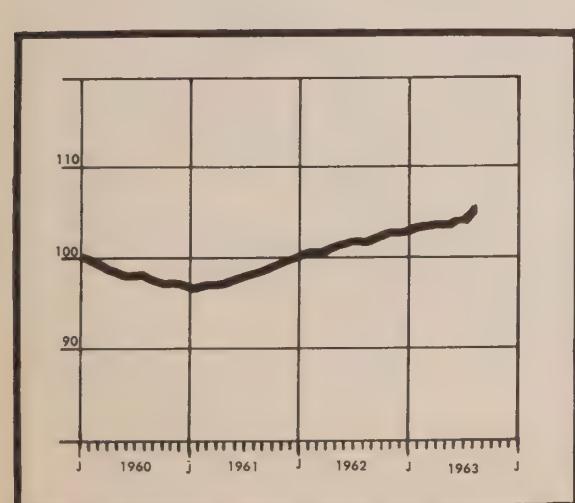
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



BUSINESS FAILURES — NUMBER (ONTARIO)



PRICES, INDUSTRIAL MATERIALS (CANADA)



ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED
 (Figures for Canada*)

	1962		1963		1964		1965		1966	
	October	November	December	January	February	March	April	May	June	July
<u>LEADING INDICATORS</u>										
Average Weekly Hours Worked in Manufacturing	40.7	40.7	40.7	40.7	40.7	41.1	41.1	41.0	40.9	40.7
Business Failures - Number	85	86	86	83	81	85	88	90	93	97
Business Failures - Liabilities	5,739	5,298	4,182	3,694	3,618	4,936	6,003	6,586	6,783	7,540
New Orders in Manufacturing*	\$ 2,262	\$ 2,330	\$ 2,306	\$ 2,306	\$ 2,306	\$ 2,361	\$ 2,331	\$ 2,352	\$ 2,368	\$ 2,394
(No.)	2,783	2,375	2,839	3,015	3,325	3,628	3,665	4,076	4,193	4,103
New Dwelling Unit Starts	42.9	43.4	47.4	48.2	50.8	45.5	40.2	35.8	39.6	43.2
Housing Contracts										
Business, Industrial and Engineering Contracts	\$ 73.4	\$ 78.8	\$ 92.9	\$ 84.7	\$ 81.7	\$ 75.3	\$ 66.8	\$ 73.8	\$ 73.4	\$ 75.8
Money Supply*	\$ 15,143	\$ 15,210	\$ 15,267	\$ 15,391	\$ 15,563	\$ 15,576	\$ 15,629	\$ 15,755	\$ 16,005	\$ 16,107
<u>COINCIDENTAL AND LAGGING INDICATORS</u>										
Gross National Product*	\$ Million		41,252		41,952		42,436		42,436	
Total Industrial Production*	1949=100	189.1	189.6	189.7	189.4	191.1	194.0	194.3	195.7	195.9
Total Manufacturing	167.3	168.3	169.9	168.8	169.4	172.0	171.7	173.8	173.8	170.8
Non-Durables	161.9	165.4	167.4	165.9	167.3	172.7	170.8	172.8	173.4	170.5
Durables	170.2	171.6	172.8	172.1	171.9	171.1	172.8	174.9	174.3	171.2
Mining	296.2	291.9	283.6	281.1	291.5	299.5	302.1	297.5	298.3	286.0
Electric Power & Gas										
Utilities	340.7	341.9	334.4	351.7	353.6	351.3	356.2	358.7	361.5	373.9
Cheques Cashed in Clearing Centres	\$ 2,922	\$ 2,953	\$ 3,024	\$ 3,085	\$ 3,098	\$ 3,140	\$ 3,196	\$ 3,179	\$ 3,185	\$ 3,201
Retail Trade	\$ 552	\$ 556	\$ 563	\$ 570	\$ 569	\$ 567	\$ 570	\$ 566	\$ 568	\$ 564
Labour Income	\$ 726	\$ 732	\$ 730	\$ 748	\$ 744	\$ 748	\$ 757	\$ 759	\$ 756	\$ 771
Labour Force	2,416	2,409	2,415	2,420	2,422	2,426	2,444	2,455	2,467	2,473
Employed	2,318	2,317	2,324	2,329	2,332	2,335	2,346	2,353	2,366	2,376
Unemployed as a % of Labour Force	98	97	91	91	90	91	98	102	101	97
Industrial Employment	% 1949=100	123.9	124.2	124.6	125.0	125.2	125.5	125.8	126.1	126.3
Average Hourly Earnings in Manufacturing	\$ 2.00	\$ 2.01	\$ 2.01	\$ 2.01	\$ 2.02	\$ 2.02	\$ 2.03	\$ 2.04	\$ 2.04	\$ 2.05
Primary Energy Demand - OHPC	\$ 36.35	\$ 36.44	\$ 36.44	\$ 36.98	\$ 37.02	\$ 36.87	\$ 36.99	\$ 37.14	\$ 37.15	\$ 37.78
New Dwelling Unit Completions	(No.)	2,916	2,872	2,794	2,736	2,687	2,564	2,762	2,894	3,206
<u>ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED*</u>										
Dividend Payments	1956=100	116.4	118.5	119.1	119.3	120.2	120.8	128.6	119.3	120.4
Prices, Industrial Materials	1935-39=100	245.1	246.6	247.7	250.8	250.0	252.3	254.8	255.3	251.4
Domestic Exports	\$ Million	602.6	493.6	530.6	424.6	487.7	514.2	547.9	592.8	543.2
Imports for Consumption	\$ Million	586.7	555.3	437.5	504.8	431.3	478.2	554.6	532.9	585.2
Foreign Exchange Reserves	\$ Million U.S.	2,614	2,608	2,539	2,663	2,594	2,600	2,671	2,712	2,692

THE ONTARIO ECONOMY

ANNUAL REVIEW 1963

From all aspects the performance of the Ontario economy in 1963 was pleasing indeed. Following upon the heels of a year of rapid expansion in 1962, the Ontario economy advanced another 6 per cent in 1963. Assuming price advances for Canada as a whole to be fairly representative in Ontario, the real growth rate was about 4 per cent.

More than one feature contributed to the success of the economy in 1963, but outstanding were strong advances in automobile and steel production and, most especially, a rise in exports. One of the sharpest advances in total Canadian exports in 1963 was for manufactured goods, a large part of which were produced in this province. Other highlights were a series of very ambitious construction projects, including expansion in the steel, automotive, pipeline, chemical, and highway sectors of the province. Overall income reached record highs, corporate profits remained buoyant and sales, which remained on a high plateau for most of the year, rose considerably at year end. The result was one of general prosperity and rising employment throughout the year. Unemployment in fact was held at a very reasonable level — 3.8 per cent — when compared with persistently higher unemployment in both the United States and the rest of Canada.

MANUFACTURING

The manufacturing sector represents the most important segment of an economy. In Ontario it accounts for about 31 per cent of the total gross domestic product and about 26 per cent of its employment. Within the manufacturing sector the value of durable production normally has a slight edge over the non-durable, accounting for more than 50 per cent. Principal among the durable producers are manufacturers of primary metals and transportation equipment. The food and beverage industry is the single most important contributor to non-durable manufacturing.

Iron and steel and the automotive industries represent the most important segments of the primary metals and transportation equipment sectors. During 1963, iron and steel production rose by 14 per cent over the 1962 level, setting an all-time high. Over the year, total iron and steel production in each month exceeded the monthly level a year earlier. Nevertheless, unusually high activity in this industry, which we have become accustomed to in recent years, seemed to soften during the year. The trend in steel production, although high, was slightly downwards. Automobile production on the other

hand displayed remarkable strength, similar to its counterpart in the United States, rising to an all-time record for the second year in a row. At the end of 1963, total motor vehicle production was more than 23 per cent higher than in 1962.

Essentially, economic prosperity in Ontario during 1963 can be attributed to the manufacturing sector. During periods of buoyant economic activity in North America, manufacturing has always been in the forefront. Conversely, during periods of slack, manufacturing experiences relatively greater hardships, with higher levels of unemployment. Since 1963 was a period of rising economic activity throughout North America, it is natural that the Ontario economy, with its relatively high concentration of manufacturing, should experience a higher degree of prosperity and comparatively low level of unemployment.

But this is not all. There was evidence during the year that Ontario manufacturers were enlarging their share of the world market. Examples were, expanded exports of automobiles and parts, particularly to the United States, and to a lesser extent to Australia and South Africa, a growing chemical export market and an increase in a host of other manufactured exports. Most striking in the automotive industry during the year was the Studebaker Corporation's head office decision in the United States to move its entire automobile operation to Hamilton, Ontario. The branch plant in Hamilton had demonstrated an ability to operate at a profit, in contrast to several years of loss in the United States. Of less striking significance, but still important, was expanded production at the American Motors plant in Brampton, Ontario.

Consistent with a policy to increase its share of the domestic market and to obtain a larger portion of the export market, the steel industry in Ontario, notably the Steel Company of Canada at Hamilton and the Algoma Steel Corporation of Sault Ste. Marie, increased facilities to produce wide sheet and skelp steel for the huge pipeline programs being carried out across Canada at the present time. Previously these products were imported from the United States. The addition of the new Lake Ontario Steel Company at Whitby, Ontario, adds further productive capacity to this industry.

The consumer has also demonstrated that a high level of productive activity reflects very much the buying moods of the public. The continued high level of demand for automobiles, for a second year in a row, sparked not only the automotive industry but its supplier, the steel industry.

MINING

In comparison with the manufacturing sector, mining in Ontario is considerably less important. As a percentage of the gross domestic product, mining accounts for about 5 per cent. It is, nevertheless, the most significant of the primary producing industries in Ontario. During 1963 mineral production as a whole declined from the year earlier level. The main reasons for this were the continuation of a long term readjustment in the uranium industry and a somewhat smaller adjustment in the nickel industry. Since the termination of the uranium stockpiling agreement with the United States in August 1962, uranium production in Canada, of which Ontario accounts for almost 77 per cent, has been sharply reduced. At the present time there is only one outstanding contract, with the United Kingdom, for a limited quantity of uranium over the next 8 years. Remaining production is absorbed in domestic uses. Nickel production was curtailed temporarily as a result of some overstocking of world supplies and some readjustment within the industry itself. Towards the end of 1963, nickel output was again on the increase. Copper production, which was also rather weak at the beginning of the year, improved considerably at year end. Although gold output was a little below the previous year's level, continued activity in this sector was guaranteed with the extension for 4 more years of the Gold Mining Subsidy Act, commencing January 1st, 1964.

Offsetting the depressed sectors of the mining industry was the iron ore sector. During the first half of 1963, iron ore mining in northern Ontario was at a very high level. Most of the production was shipped to the blast furnaces of southern Ontario, which were operated at peak, or near peak capacity for most of the year. Further production of iron ore was indicated with the opening of a new mine by Caland Iron Ore Company near Steep Rock, Ontario. Caland intends to add a pelletizing plant to their operations in order to convert the raw ore into a secondary stage of iron pellets. These will be later melted at the steel mills.

AGRICULTURE

Agricultural production in Ontario ranks next in importance to mining in terms of total productive contribution, equal to 3.5 per cent of gross domestic product. During 1963, agricultural production remained at a reasonably high level. Field production was about the same as in 1962 — about 5 per cent greater than the previous 10-year average. Tobacco production, Ontario's single most important cash crop, was higher than in 1962, despite the fact that a smaller acreage had been planted. One of the highlights of the season was a contract with the Japan Monopoly Corporation for 1,600,000 lbs of Ontario's 1962 and 1963 tobacco crop. This is a new market which, it is hoped, will be extended into the future.

Fruit production, dairy production, and cheese production also made moderate gains over the previous year's levels.

CAPITAL INVESTMENT

New fixed capital investment is the most dynamic source of economic activity (aside from inventories). The rate of new construction activity within the economy demonstrates more effectively than any other single indicator the mood and confidence of the business community. During 1963, business optimism and confidence improved, reflecting a general growth of the Ontario economy. This was demonstrated by a mid-year adjustment of total capital expenditure intentions for Canada, to roughly 6 per cent above that of 1962. Total new capital investment in Ontario for 1963 is now estimated at \$3.2 billion — the highest level since the boom years of 1956 and 1957.

Housing construction for the first half of 1963 exhibited considerable slack, but since July has been on a steeply rising trend, reflecting in large part the various aids and incentive plans given by the federal government last summer. There is some speculation whether this trend will continue much beyond the winter months when the winter bonus plans are exhausted. Towards the end of the year, new dwelling unit starts had begun to taper off from the high levels of mid-year.

Business, industrial, and engineering construction during the year was almost the reverse of housing construction. The weaknesses in one were offset by strength in the other. For the year as a whole, total new construction in the province was actually a little better than in the previous year.

New contracts for the business, industrial and engineering sector of the economy dropped sharply at the end of 1963, but those contracts already begun and extended during the year were so significant that business activity and related employment should be stimulated for many months to come. Some striking examples included the construction of Toronto's east-west subway, the Gardiner Expressway, the completion of the new \$34 million International Airport at Malton, and construction along highway 401, particularly the widening of the highway to 12 lanes just north of Toronto. Other programs included a \$185 million expansion program at the Steel Company of Canada in Hamilton, a \$180 million job to twin the locks on the Welland Canal, a \$27 million expansion at Algoma Steel Corporation in Sault Ste. Marie, a \$12 million plant expansion at the Aluminum Company of Canada in Kingston, a new \$8 million Lake Ontario Steel plant at Whitby and a new \$7.5 million caustic soda plant in Hamilton for Canadian Industries Ltd.

Further construction activity undertaken in 1963 and extended into the future, included huge public and utility programs throughout the province. Significant among these are the huge university expansion programs in many centres, multi-million dollar

contracts for public buildings and continued development by various oil and gas pipeline companies. Examples are the continued gas pipeline development of Trans-Canada Pipelines Ltd. and the start on a \$30 million pipeline expansion by Union Gas Company of Canada.

EMPLOYMENT AND INCOME

Economic growth in 1963, supported by a high level of production and construction activity in the province, resulted in a year of steadily rising employment. Over the year the labour force continued to expand at a moderate pace, subject more than usual to the inflow of teenagers, particularly in the summer months. The pressure of a too rapidly expanding labour force was eased in part when many younger persons and university students decided to continue their education. Nevertheless, towards the end of the year the labour force was swollen with these new entrants. The capacity of the Ontario economy to create new jobs, on the other hand, was even better. For the year as a whole the rate of unemployment was maintained at a reasonable level — 3.8 per cent — compared with rates of 5.5 per cent and 5.7 per cent in Canada and the United States respectively. At its highest point, unemployment was equal to 4.8 per cent of the labour force in June, but improved considerably thereafter to a level of 3.3 per cent at the end of the year, on a seasonably adjusted basis.

Expanding employment contributed in part to the rising level of labour income in the province during the year, but a rising rate of average hourly earnings in manufacturing added to individual pay cheques, expanding total labour income further. In October (the latest month available) the seasonally adjusted level of labour income reached an all time high — about 5 per cent above the year earlier level. Not all income was real gain, however, since the consumer price index also rose by about 2 per cent during the year. Nevertheless, consumers extended their purchasing power with a greater than 7 per cent increase in their overall credit indebtedness, despite the fact that the level of personal savings had been rising for nearly two years.

RETAIL TRADE

The rising level of income on the one hand, and a rising level of personal savings on the other during the first three quarters of 1963, brought about a rather steady level of consumer purchases. However, these were high in comparison with the previous three years. Towards the end of the year, however, retail trade, on a seasonally adjusted basis, rose very sharply and reached record proportions by Christmas. The largest share of consumer credit indebtedness was taken up by new car purchases which were primarily responsible for maintaining retail sales at such a high level. Consumers also began to spend quite freely on other goods, including household

furniture and facilities, clothing and footwear at the year end. Despite the fact that food prices continued to rise throughout the year, groceries and other retail food sales dominated consumer expenditures. Total retail trade in the first eleven months was 5.3 per cent higher than it was a year earlier, with practically all of the rise taking place in October and November.

FINANCE

Domestic and foreign government fiscal policies had an important and visible impact upon Canadian monetary conditions throughout 1963. The reduction in the Canadian bank rate from 4 per cent to 3½ per cent on May 6, 1963, was viewed as an expression of the Federal Government's desire to promote greater economic expansion through an easier monetary policy. The total supply of money in Canada prior to this date had remained fairly constant at around \$15.6 billion but subsequently advanced consistently during the following three months. By August the total money supply had increased by about 4 per cent to a level of \$16.2 billion. The interest rate structure in Canada accordingly was subject to fractional downward adjustments which continued until mid-July.

Though certain provisions aimed at discouraging the extent of foreign ownership of Canadian companies highlighted the Federal budget brought down in June, the trend to lower interest costs of borrowing prevailed until an announcement was made that a measure was to be placed before the United States Congress to authorize a tax on sales of foreign securities to United States residents. This proposed U.S. Interest Equalization Tax took the form of a graduated tax ranging from 2.75 per cent for three-year bond maturities to 15 per cent for bonds maturing after 28½ years and 15 per cent in the case of equity securities. Announcement of this proposal on July 18, 1963 by the late President Kennedy had an immediate effect on borrowing costs in Canada. The entire interest rate structure rose sharply. Despite subsequent announcements stemming from representations made by the Federal Government in Washington in respect to the proposed tax, the uptrend in Canadian interest rates prevailed until September 1963, when details of Canada's wheat sales to the U.S.S.R. were released.

The most important concession on the part of the U.S.A. resulting from the representations made by Canada in Washington regarding the Interest Equalization Tax was an intimation that the President would be given discretionary power to consider exemptions from the proposed tax. This has been interpreted to mean that, if and when the tax is enacted, the U.S.A. will not impose it on new Canadian issues of bonds or stocks. U.S. Secretary of State Dillon, however, has indicated that such an exemption in respect of new Canadian bond financings would only apply if such borrowings did not

exceed \$500 million per year. While this proposed tax is still subject to debate, and not as yet in force, certain additional refinements to its form have been made. Namely, the tax in its present form would not be imposed upon the stock market trading in foreign equities whose principal market is the U.S.A., and at least 50 per cent owned by U.S. stock holders. In this respect, the New York and American Stock Exchanges have released a list of 19 companies which would qualify, virtually all of them being Canadian.

The prospects of a capital inflow in excess of half a billion dollars over the next three years, inherent in September's announcement of sizeable wheat contracts brought to an immediate halt the uptrend in the Canadian interest rates structure which had ensued since mid-August, 1963. Costs of borrowing consequently were subject to downward adjustment and interest rates closed the year at levels virtually the same as those prevailing at the commencement of 1963. The total supply of money in Canada which had remained fairly constant at around \$16 billion in the two-month period prior to the announcement of the wheat sales consistently advanced thereafter to close the year at a peak of \$17.14 billion — an actual increase of \$1.5 billion or some 9 per cent over the 1962 year-end level. This represented one of the largest expansions in currency outstanding over any 12 month period in Canada's history. However, impressive as this increase is, it must be related to the fact that total money supply at the end of 1962 was somewhat subnormal due to the exchange crisis which then prevailed.

After reaching a record level of \$2,712 million at the end of May 1963, Canada's official holdings of gold and dollar reserves declined to \$2,470.5 million by the end of August. Part of this decline was undoubtedly attributed to the impact on the economy of the proposed Interest Equalization Tax and partly due to a repayment of \$79.7 million of the \$300 million emergency loan that the International Monetary Fund previously made available to Canada at the time of the 1962 foreign exchange crisis. From August onwards, the total of reserves steadily recovered to a level of \$2,631 million by the end of November. At the close of December, 1963, the total holdings amounted to \$2,595 million. This slight decrease in reserves of \$36 million during December, however, is regarded as seasonal in nature arising out of such factors as heavy dividend payments to foreigners at year end, the decline in Canadian commodity sales abroad due to the St. Lawrence Seaway shut-down and increased Canadian tourist traffic south of the Canadian border, etc.

New Canadian bond financings during calendar 1963 totalled \$3.9 billion, down 23.5 per cent from \$5.2 billion raised in the same period last year. Municipal and Provincial financings obtained through this media were slightly higher but Federal and Corporation floatations were substantially lower. Federal financings totalling \$1.6 billion and Corporation fi-

nancings of \$0.7 billion were 45.7 per cent and 19.4 per cent respectively lower in 1963 than in 1962. The value of bonds payable in Canadian funds in 1963 totalled \$3.4 billion, a decrease of almost 21 per cent from the \$4.3 billion raised in 1962. Similarly, the value of bonds payable in U.S. funds which amounted to \$0.5 billion in 1963 were 37 per cent lower than 1962's total of \$0.8 billion. The largest single factor influencing the value, volume and source of new Canadian bond financings in 1963 undoubtedly was the proposed U.S. Interest Equalization Tax. For example, prior to the announcement of this proposed measure, new borrowing had amounted to \$2,202,812,204 of which \$523,401,666 or 23.8 per cent were payable in U.S. funds. By the close of 1963 however, new borrowings had only risen to \$3,940,749,517 of which \$529,251,666 or 13.4 per cent were payable in U.S. funds. In other words, new Canadian bonds financings in the last five months of 1963 amounted to \$1,737,937,313, some 37.5 per cent lower than the \$2,782,404,592 raised in the period August to December, 1962. In the August to December 1963 period a mere \$5.85 million or 0.33 per cent was payable in U.S. funds.

The Province of Ontario came to the market on three separate occasions during calendar 1963 for total borrowings of \$120 million. Initially, in May it raised \$20 million through a private placement of 4%, 3-6 year debentures in New York. In August, a two-part \$50 million issue was released consisting of a \$15 million 5% debenture due September 15, 1967, which was privately placed and a \$35 million 5½% debenture due September 15, 1980/83, priced at \$98.50 to yield 5.625 per cent. Finally, in November, a \$50 million 20 year - 5¼% debenture bond issue was offered, priced at \$98.00 to yield 5.415 per cent. In addition, the Province guaranteed principal and interest payments on \$120 million worth of Ontario H.E.P.C. new bonds floated during calendar 1963. The first of these new issues raised on the Canadian market was a \$60 million two-part offering in February comprised of a \$13.5 million 5% bond issue maturing March 1, 1971, priced at par and a \$46.5 million 5¼% bond issue due to mature March 1, 1983 (callable after March 1, 1980 at par), priced at \$99.375 to yield 5.30 per cent. The remaining \$60 million was raised in May, through a 5%, 20 year bond issue priced at \$97.50 to yield 5.20 per cent.

Apart from a few periods when activity on Canadian stock exchanges was particularly and significantly sensitive to domestic and foreign events, 1963 was a year in which Canadian equity prices on average advanced at a slow but steady rate. It was a year noteworthy in the sense that investors appeared to be influenced more by Canada's steadily improving balance of payments position than by particular external events. As a consequence, the wide swings in prices which had occurred in previous years were, to a large extent, eliminated. On three particular occasions, however, sharp reversals

of the uptrend in prices did take place. The first occurred in mid-June in the wake of certain provisions contained in Finance Minister Gordon's June 13th budget. The reaction to the proposed "Take Over Tax", for example, was pronounced strongly. The second substantial downtrend took place on the announcement of the late President Kennedy's "Interest Equalization Tax" on July 18th. Subsequent discussions in Washington between Canadian and U.S. officials regarding the intent and content of the tax in this case did much to dispell investor's fears and prices once again recovered. Nevertheless, the threat of this tax still continues to dampen trading on Canadian stock markets. The final marked downturn in prices occurred just prior to the closure of the markets following the tragic news of the assassination of President John F. Kennedy on November 22nd. The delay in the reopenings of stock exchanges, however, gave investors full opportunity to make a rational evaluation and weigh carefully the implications of this tragedy and general business conditions. Consequently, when the markets re-opened, virtually all selling pressures had been abated and a strong rally ensued which more than offset the previous losses registered. Subsequently, from the end of November until the close of 1963, price appreciation in most sections of Canadian stock markets was the rule. The tempo of trading rose significantly and a vigorous rally climaxed the close of trading in 1963. The volume of all listed shares traded on the Toronto Stock Exchange during 1963 amounted to 808,852,100 for a value of \$2,143,888,123, an increase of 0.5 per cent, and 3.9 per cent respectively over the 1962 figures.

Throughout 1963 the Canadian dollar has generally been above its parity of \$.92½ U.S. except for the period immediately following the announcement on July 18th of the proposed "Interest Equalization Tax". From a noon rate high of \$.92 59/64 U.S. quoted at the end of January, only minor fluctuations were registered until July 19th. The noon rate was then quoted at its 1963 low of \$.92 3/32 U.S. Thereafter the value of the Canadian dollar recovered strongly being given particular impetus by the news of the U.S.S.R. wheat contracts. At noon on September 26th the Canadian dollar was quoted at \$.92 29/32 — a level virtually the same as its previous 1963 high. Since then the Canadian dollar has eased slightly, closing the year at a level of \$.92 17/32 — a decline of 5/16 from the previous year.

FOREIGN TRADE

There is no doubt that the devalued Canadian dollar was largely responsible for the much improved Canadian foreign trade picture in 1963. While exports became more attractive to other countries, imports were discouraged. Exports during the year expanded by more than 8 per cent over the previous year. Wheat sales to Asia and European countries was the single most important commodity

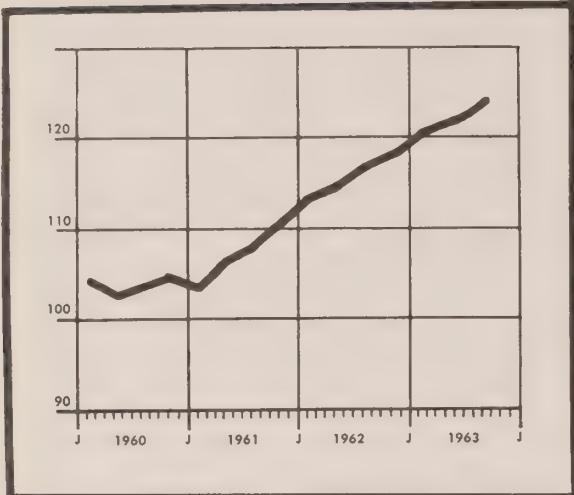
traded during the year, but a wide range of manufactured products, when lumped together, recorded the largest percentage increase in exports.

The success of manufactured exports was one of the principal factors in Ontario's growth last year. New markets were found for a great number of Ontario's manufactured products outside of Canada, and it appears that many of these will be more than temporary. Some striking examples of Ontario companies competing in foreign markets are the operations of McNamara Corporation Ltd., which in 1963 included projects under construction throughout North America and the West Indies valued at more than \$50 million, the completion of a pulp and paper mill in Chile by John Inglis & Co., valued at \$11 million, contracts for the construction of a huge Canadian-designed nuclear power plant in India by the Canadian General Electric Co., worth \$70 million and the construction of a hydro-electric power plant in Ceylon valued at \$9.3 million. Other power contracts secured by Ontario companies included orders for two turbine generators from the Canadian Westinghouse Co. Ltd., valued at \$30 million and two turbine power projects by John Inglis in Oklahoma and South Dakota, valued at \$9 million. Also significant was the sale of diesel locomotives by the Diesel Locomotive Co. of Canada to the Federated Railways of Brazil and the New Zealand government, valued at more than \$19 million. Successful competition in foreign markets for other than specialized products was illustrated by Campeau Construction Ltd. of Ottawa in selling 500 pre-fabricated houses in Western Germany for more than \$10 million and the sale of automobiles to South America, Australia and the United Kingdom. An order for 500 cars from American Motors to the United Kingdom market is a striking example.

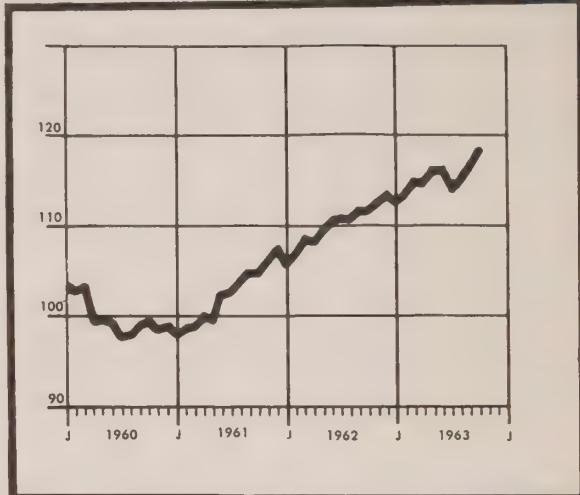
The greatly improved foreign trade picture brought lasting benefits to the economy and the discouragement of imports greatly accelerated the growth of import replacement industries in this province. For 1963 as a whole exports are expected to have expanded by 9 per cent and imports, which were only marginal in the first three quarters, are expected to rise by 3.5 per cent for the year as a whole. The overall merchandise trading account is expected to show a surplus for the year of \$450 million, compared with a surplus of \$155 million in 1962.

In summary, the continued growth of the Ontario economy during 1963 was the result of consumer optimism, demonstrated especially by a willingness to purchase a large quantity of durable goods, notably automobiles for a second year in a row, general business optimism, which brought about a higher than anticipated level of new capital investment and an expansion of manufactured export commodities. All-in-all, 1963 was a good year and, from the present vantage point, the economy appears likely to do well for at least the first half of 1964.

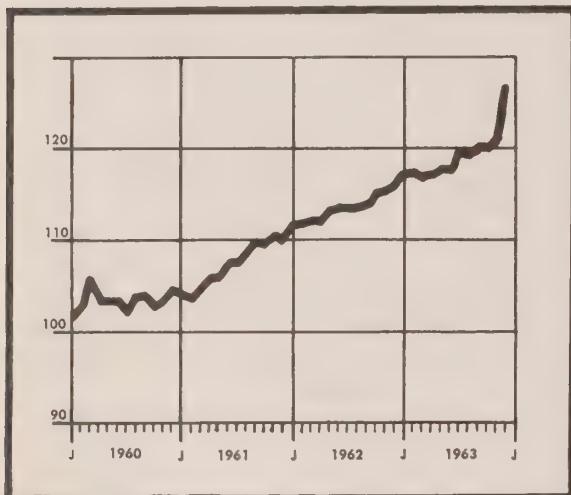
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



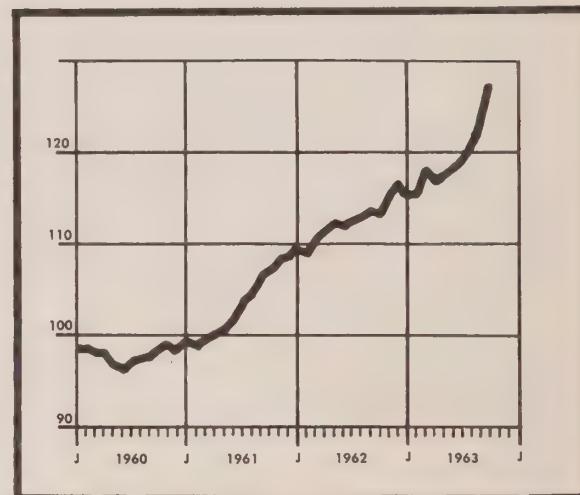
GROSS NATIONAL PRODUCT (CANADA)



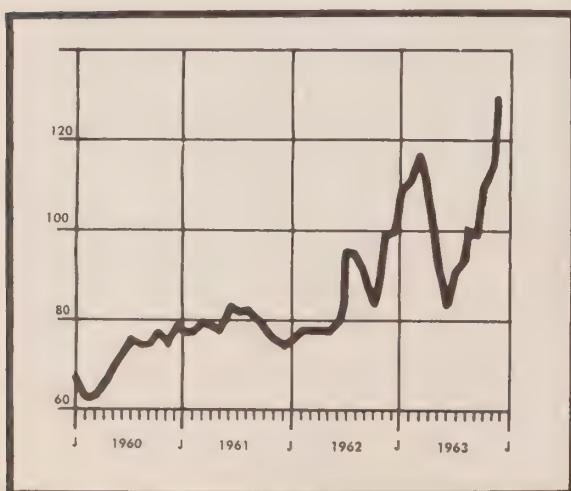
INDEX MANUFACTURING PRODUCTION (CANADA)



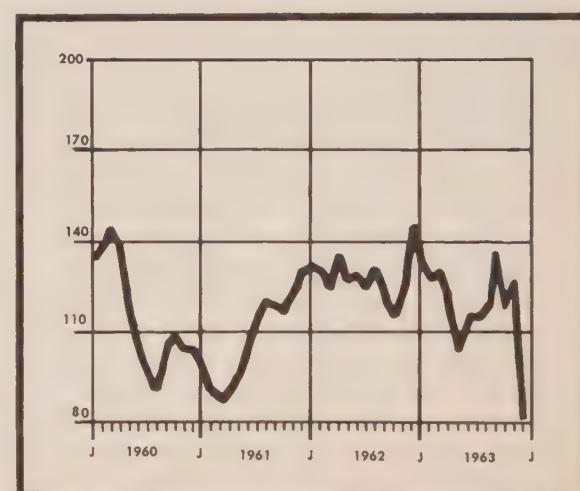
PRIMARY ENERGY DEMAND — OHPC
(ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

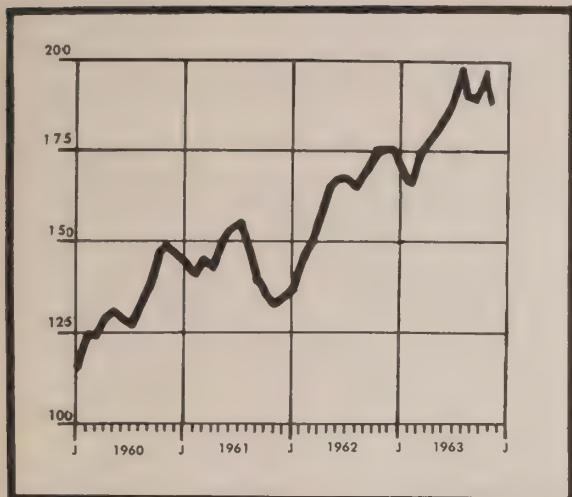


HOUSING CONTRACTS (ONTARIO)

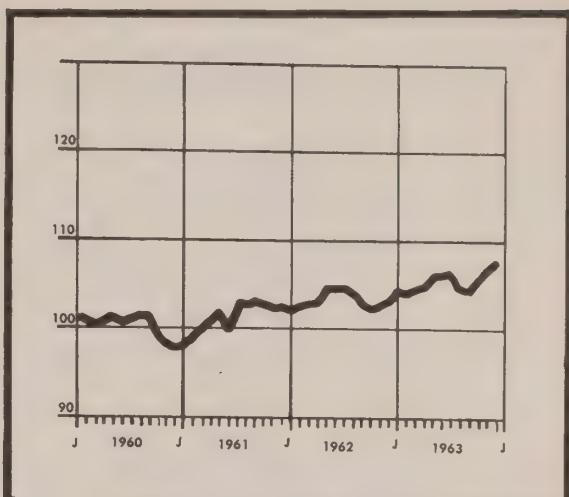


BUSINESS, INDUSTRIAL AND ENGINEERING
CONTRACTS (ONTARIO)

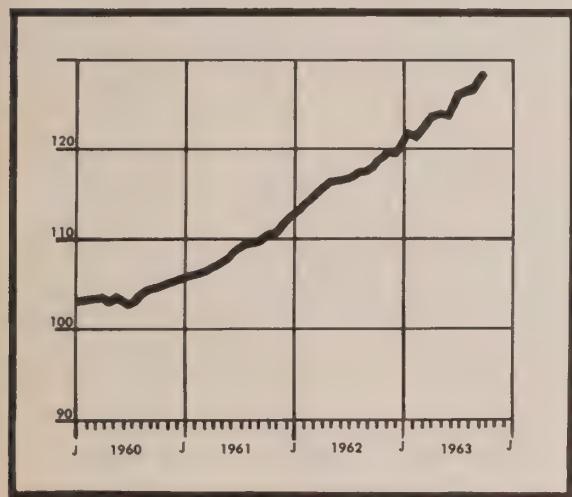
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



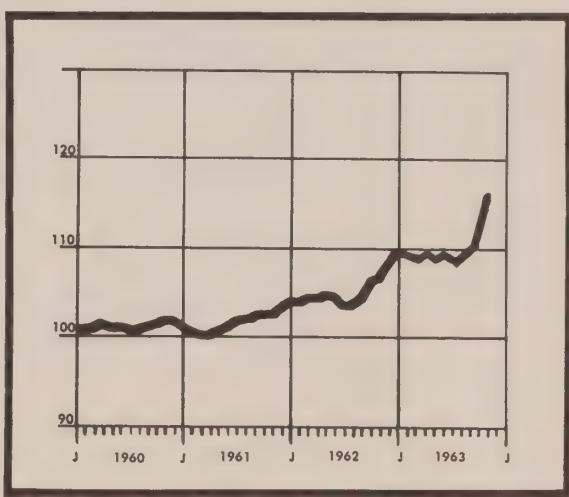
BUSINESS FAILURES — NUMBER (ONTARIO)



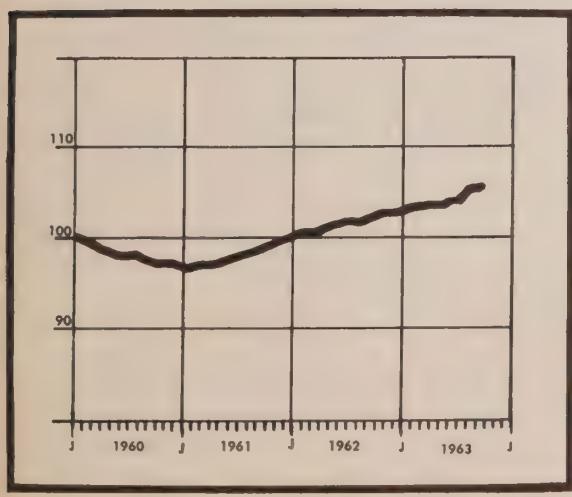
PRICES, INDUSTRIAL MATERIALS (CANADA)



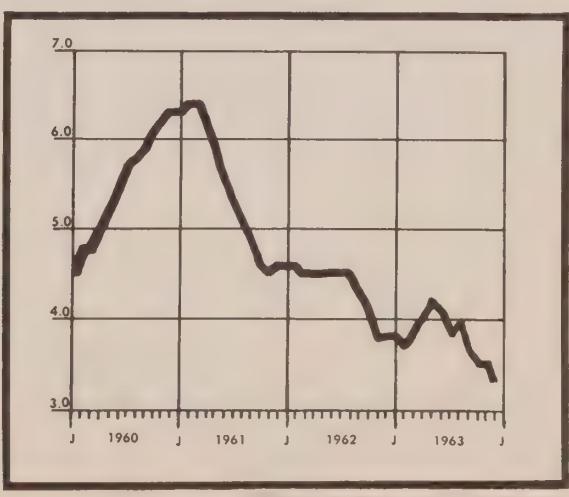
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(*Figures for Canada)

LEADING INDICATORS																	
1962	--	1963	--	November	December	January	February	March	April	May	June	July	August	September	October	November	December
COINCIDENTAL AND LAGGING INDICATORS																	
Manufacturing Hours Worked in Manufacturing		40.7		40.7		40.7		41.1		41.1		40.9		40.8		40.7	
Business Failures - Number		86		83		85		88		90		92		95		99	
Business Failures - Liabilities		5,298		4,182		3,694		3,618		4,936		6,003		6,586		5,254	
New Orders in Manufacturing*		\$ 2,296		2,330		2,306		2,361		2,331		2,352		2,368		2,441	
New Dwelling Unit Starts		\$ 2,875		2,839		3,015		3,325		3,628		3,665		4,076		4,193	
Housing Contracts		\$ 1,2.9		1,3.4		1,47.4		48.2		50.8		45.5		40.2		35.8	
Business, Industrial and Engineering Contracts		\$ 78.8		92.9		84.7		81.7		83.1		75.3		66.8		73.8	
Money Supply*		\$ 15,210		15,267		15,391		15,563		15,576		15,629		15,755		16,005	
Gross National Product*		\$ Million		41,252		41,988		41,988		42,452		42,452		43,016		43,016	
Total Industrial Production*		1949=100		189.6		189.7		189.4		191.1		194.0		195.3		192.8	
Non-Durables		\$ 168.3		169.9		168.8		167.4		172.0		171.7		173.8		170.8	
Durables		\$ 165.4		167.4		165.9		167.3		172.7		170.8		173.4		170.5	
Mining		\$ 171.6		172.8		172.1		171.9		171.1		172.8		174.9		171.2	
Electric Power & Gas Utilities		\$ 291.9		283.6		281.1		291.5		299.5		302.1		297.5		286.0	
Cheques Cashed in Clearing Centres		\$ 341.9		334.4		351.7		353.6		351.3		356.2		358.7		361.5	
Retail Trade		\$ 556		563		570		569		567		570		566		564	
Labour Income		\$ 732		730		748		744		748		757		759		756	
Labour Force		\$ 2,409		2,415		2,420		2,422		2,426		2,442		2,455		2,467	
Employed		2,317		2,324		2,329		2,332		2,335		2,346		2,353		2,366	
Unemployed as % of Labour Force		%		3.8		3.8		3.7		3.8		4.0		4.2		4.1	
Industrial Employment		1949=100		124.6		125.0		125.2		125.5		125.8		126.2		126.6	
Average Hourly Earnings in Manufacturing		\$ 2.01		2.01		2.02		2.02		2.03		2.07		2.04		2.05	
Primary Energy Demand - OPEC		\$ 36.44		36.14		36.98		37.02		36.87		36.99		37.14		37.83	
New Dwelling Unit Completions		2,792		2,794		2,736		2,687		2,564		2,625		2,762		2,894	
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED*														3,206			
Dividend Payments		1956=100		118.5		119.1		120.2		120.5		120.8		118.6		119.3	
Prices, Industrial Materials		1935-39=100		247.7		250.8		250.3		252.1		254.8		254.9		251.4	
Domestic Exports		\$ 586.1		493.6		530.6		424.6		487.7		514.2		647.9		515.7	
Imports for Consumption		\$ 555.3		437.5		504.8		431.3		478.2		554.6		609.3		532.9	
Foreign Exchange Reserves		\$ Million		2,608		2,663		2,633		2,692		2,711		2,600		2,594	

THE ONTARIO ECONOMY

Ontario's economic environment in the opening weeks of 1964, displayed a continuation of the favourable conditions which closed out 1963. An equally favourable business climate in the United States, coupled with the expectation of a tax cut, is bound to stimulate further exports and other business in the province and to extend the public feeling of optimism in the economy. Continued growth forecast for most European countries in the coming year should also add to the demand for Ontario's products, particularly if prices in Europe continue to rise at a faster rate than in Canada.

Closer to home buoyant business conditions were exemplified by a continued high level of retail purchases and an extraordinary high level of new construction, not only in housing but in business, industrial and engineering construction as well. The overall result was the lowest level of unemployment in six years. In January, the seasonally adjusted rate of unemployment was 2.9 per cent of the labour force.

PRODUCTION

Industrial production continued to break new ground at the close of 1963. The latest seasonally adjusted index of total industrial production in Canada (November 1963) rose for the fourth consecutive month to an all-time high. Further rises are anticipated as recent new orders in manufacturing show impressive gains with a resultant swelling of unfilled orders. At the same time, the manufacturers' inventory to sales ratio has been declining. In spite of more efficient inventory control methods, it is very likely that inventories will have to be expanded somewhat in the near future.

In Ontario, production has more than maintained the overall Canadian tempo. In practically every major sector of production in Ontario there is a feeling of vigour and optimism. The automobile industry continues to improve as production each month surpasses previous levels, despite the fact that American Motors Corporation in Brampton shut down for one week in January due to overproduction of their Classic compact model.

Steel production remains high. Earlier expectations of some slowing have been replaced by a strong demand outlook. Activity in the construction industry, the largest user of steel, is better than normal for this time of year. Exports, the next largest source of demand, are expected to remain strong, as several factors have combined to improve our unit cost of production relative to other industrial countries. The majority of steel exports go to the United States with which Canadian mills have a \$5-\$7 per ton price advantage. Other important steel users, the gas pipeline and tube industry and the automobile industry, anticipate a high level of activity in the

coming year. In January, both steel and pig iron production were higher than in December and considerably higher than a year earlier. For the first week in February a new record was set, 2.1 per cent higher than the previous peak in May 1963.

Other industries which are showing improved results are the textiles and pulp and paper industries. A substantial reorganization within the textile industry during the 1950's resulted in a third consecutive year of expansion in 1963. A large part of the success was due to increased production of synthetic textiles. Several mills are planning to expand production of synthetic fabrics in an effort to replace some imported products in the domestic market. The pulp and paper industry also did better last year, setting a new record in production, despite the work stoppages at the beginning of the year resulting from newspaper strikes in the United States. The immediate outlook, although not as favourable as the long run outlook, is for steady growth, particularly with a more diversified range of products. For example, both the Great Lakes Paper Co. Ltd. and Abitibi have ventured into kraft production.

Mining production continues to be depressed by slack in the uranium industry but copper and nickel production are improving considerably. During the first week in February the International Nickel Co. of Canada Ltd. rehired 1,850 men from a force of 2,500 that had been laid off in 1962 when production was cut back.

CONSTRUCTION

Reflecting the optimistic nature of business generally, construction activity in Ontario is at very high levels. Unlike a few months earlier, when construction activity was rather mixed, nearly all phases of construction are rising rapidly. When compared with a year earlier, total construction contracts in January were 38.4 per cent higher. On a seasonally adjusted basis both residential and business, industrial and engineering contracts were at a new high. Some prime examples of construction activity in the province at the present time include work on Toronto's east-west subway, the widening to 12 lanes of highway 401 just north of Toronto, the construction of two huge railway freight marshalling yards, one by the Canadian National Railways and the other by the Canadian Pacific Railways, also in the Metropolitan area, and the start of work on the huge project to twin the locks on the Welland Canal.

Indicating that this activity should continue well into the future are projects which have just been announced. These include the construction of a \$31 million kraft mill by Great Lakes Paper Co. Ltd. at Fort William, a \$13 million kraft mill by Abitibi at Smooth Rock Falls,

a \$7 million chemical plant by Du Pont of Canada Ltd. and a \$1.5 million fertilizer plant by Electric Reduction Co. of Canada Ltd., both at Port Maitland, the construction of compressor stations by Trans-Canada Pipe Lines Ltd. in North Western Ontario, costing approximately \$10 million, and the construction by Tridan Manufacturing Ltd. of a new plant near Burlington for the manufacture of hoses, clamps and signal flashes. Some significant new public contracts include an \$11.8 million job to Babcock-Wilcox and Goldie McCulloch Ltd. of Galt for the Hydro Electric Power Commission of Ontario, a \$5.8 million order for radio and electrical equipment from Northern Electric Co. Ltd. of Ottawa for the Federal Government and the construction of a vocational-commercial school at Bloor and Christie streets in Toronto, valued at more than \$3 million. The Ontario Energy Board has also recently approved the construction of a \$24 million natural gas pipeline across Southwestern Ontario. The Union Gas Co. of Canada Ltd. and its subsidiary, the Natural Gas Storage and Pipelines Ltd. will start soon on a line from Dawn township, north of Chat-ham, to Oakville.

EMPLOYMENT

As a result of this very high level of construction and production activity in the province, unemployment in Ontario reached its lowest level since April 1957. The seasonally adjusted unemployment rate in January was 2.9 per cent. In construction, which normally has a high degree of seasonal unemployment at this time of year, it is difficult in the Toronto area to hire a single brick-layer or carpenter. Most of the industrial centres of the province are experiencing shortage of a wide range of skilled labour.

SALES

This environment has had a sharply stimulating effect on sales. After remaining rather hesitant for about three-quarters of last year, retail sales suddenly began to rise. By Christmas they had reached record proportions, on a seasonally adjusted basis, and so far there is no sign of abatement. Similar trends are also evident in sales performances throughout the rest of Canada and the United States. The big leader continues to be automobile sales but there have been impressive gains in furniture sales and a trend towards purchases of higher quality clothing and footwear. Department store sales in Ontario for January were more than 20 per cent higher than a year earlier.

Despite the fear of lower tobacco sales, resulting from the much publicized danger of cancer from cigarette smoking, tobacco sales from Ontario's flue-curers have never been better. A recent highlight was a huge sale of tobacco to Japan and the U.S.S.R. The latest contract with the Soviet Union, announced January 22, was for \$1.4 million.

ONTARIO BUDGET 1964-65

On February 12th, 1964, the Provincial Treasurer brought down a record \$1,304 million Ontario budget.

Almost half of this amount is allocated to the Departments of Education, Health and Public Welfare. Capital outlays on physical assets are budgeted at \$264.4 million.

Net ordinary revenues of \$1,157.6 million are also at a record level and represent an increase of \$101.5 million over this year's income. Of this increase, \$30.0 million will be derived from tax changes, \$12.0 million from price adjustments by the Liquor Control Board and the balance from general expansion of revenues from existing tax sources. In spite of this growth in the province's income, however, an overall shortfall of \$104.9 million in revenue is forecast.

While various tax changes are to be introduced in 1964-65, by far the most important is the increase of 2¢ in gasoline tax, raising the rate to 15¢ per gallon. The tax on diesel fuel for motor vehicles was raised by a like amount, the effective rate now being 20½¢ per gallon.

On July 1st, hospital insurance premiums are to be increased by some 50%, or to \$3.25 monthly for single persons and \$6.50 for a family unit. As a result of this revision, premiums will meet approximately a third of the cost of the hospital program, with the Provincial and Federal Governments each contributing a third.

Immediate reaction to the Budget on the part of most Ontario citizens appears to be one of general relief that upward tax revisions were not as widespread or as large as anticipated.

FINANCE

In the face of a seasonal decline in the total money supply and a slight decrease in the supply of loanable funds, monetary conditions within the Canadian economy remained relatively stable throughout January.

Price advances were recorded by most outstanding issues traded on Canadian bond markets during January. All sectors shared in this strength despite a decline in the volume of trading. On average, short and medium term issues registered gains ranging up to 25 cents while long-term issues advanced some 50 cents in price on a \$100 bond. The market's strength was largely attributable to favourable business news, sentiments of optimism and an increase in the number of new financings being floated in the U.S.A. New Canadian bond financings for the first month of 1964 totalled \$438.4 million as compared with \$378.4 million in the comparable 1963 period. Highlighting the new issues was a \$350 million Federal refunding issue of which only \$180 million was of a two year or longer maturity. Among the other new financings was a \$75 million Ontario Hydro Electric Power Commission issue. This offering in two parts, consisted of 5% seven year non-callable bonds priced at \$99.375 to yield 5.11% and 5½ 20-year bonds priced at \$99.25 to yield 5.48%. Sales of the 7-year maturity were limited to \$15 million.

High quality equities on Canadian stock exchanges commenced 1964 with bullish performances though much of this momentum was dissipated late in the month. On light trading volume the Toronto Stock Ex-

change Industrial Index advanced to an all time high of 142.71 on January 17, but declined thereafter to close the month at a level of 141.36.

Canada's foreign exchange reserves declined by \$12.6 million during January closing the month at a level of \$2,582.4 million. This outflow of reserves is regarded as being exceptionally small for this time of the year.

The value of the Canadian dollar in terms of U.S. funds fluctuated within a narrow 3/32nds range throughout January, a range well below that which has prevailed for this period in recent years. The Canadian

dollar at month's end was quoted at 92.6 cents, which is equivalent to a 7½% premium on the U.S. dollar in Canada.

CONCLUSION

There is no doubt that Ontario's economic climate at the present time is extremely favourable. A high and rising level of production and a very active construction industry have all contributed to high levels of employment. The outlook for the near future, at least, is most encouraging.

TOBACCO - ONTARIO'S MAJOR CASH CROP

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Until about forty years ago, large sandy wasteland patches marred the otherwise verdant landscape along the northern shores of Lake Erie. Millions of dollars had been spent on reforestation programs and other reclamation projects when, in the early 1920's, tobacco culture started to transform this unproductive land into one of Ontario's most prosperous farming areas. Within the past thirty years, the volume of flue-cured tobacco* produced in Ontario increased from some five million pounds in 1924 to an estimated 170 million pounds last year. During the same period the farm value of this crop rose from \$2 million to approximately \$90 million. Tobacco alone now accounts for one-fifth of the gross value of all field crops grown in the Province.

GROWTH

The shift in smoking tastes in favour of cigarettes which occurred in particular during the first and again during the second world war resulted in a growing preference for bright tobacco. The soils and climatic conditions in the area north of Lake Erie appear to be particularly suited for the cultivation of flue-cured tobacco used in the manufacture of cigarettes. Consequently, this region of the Province has been the main beneficiary of the spectacular growth in the tobacco industry. More than half of the Province's crop comes from Norfolk and Elgin Counties; substantial quantities are also grown in Brant, Oxford and Middlesex, while other counties such as Simcoe, Northumberland and Durham make less significant contributions to the total volume of tobacco grown in Ontario.

*Flue-cured tobacco is not the only type produced in Ontario. Due to the fact, however, that the other types (burley and dark tobacco) represent only a small fraction (8 per cent) of the total, this article concerns itself with flue-cured tobacco only.

The remarkable growth of the flue-cured tobacco industry is clearly demonstrated in the following table:

ACREAGE, PRODUCTION AND YIELD PER ACRE
OF FLUE-CURED TOBACCO IN ONTARIO,
SELECTED YEARS 1924 TO 1962

	Harvested Acreage acres	Yield Per Acre lbs.	Total Production lbs.
1924	6,849	800	5,479,000
1930	17,200	720	12,384,000
1931	27,345	896	24,500,000
1932	27,754	995	27,615,200
1934	24,289	900	21,860,000
1938	61,300	1,244	76,278,900
1940	42,640	870	37,083,500
1946	85,852	1,339	114,992,000
1951	106,300	1,317	140,023,000
1956	111,400	1,291	143,862,000
1960	123,831	1,611	199,521,000
1962	116,571	1,545	180,080,000

These statistics indicate that, although the rise in production was mainly the result of an expansion in acreage, the yield per acre was also a significant contributing factor. With respect to the latter, the average figure for the decade 1953-1962 was 1,411 pounds compared with the average for the period 1924-1932 of 796 pounds, an impressive increase of over 77 per cent. Wider use of irrigation, better fertilizers and insecticides as well as improved plant strains contributed to this development.

The quality of the tobacco improved considerably when, for the first time in 1931, the old stalk cutting

method was replaced by the priming method of harvesting. The latter involves the careful selection of ripe leaves, usually at the lower part of the stalk.

Our statistical table shows that the generally upward trend over the past decade was not without interruption. A decline in 1934 resulted from the voluntary acreage restriction introduced by farmers after a sharp drop in prices. Again, in 1940, output fell to less than half the previous year's crop due to a combination of factors including the wartime loss of export markets, a drastic cut in acreage (one-third) and extensive frost damage.

CONTRIBUTION TO THE ECONOMY

Various factors demonstrate the significant role played by the flue-cured tobacco industry in the Provincial and, indeed, the Canadian economy. We mentioned earlier that the soil on which flue-cured tobacco is grown was formerly wasteland. Today, a crop valued at some \$90 million originates annually on lands which, at one time, were the object of considerable government expenditure. How well this land is utilized becomes apparent when we consider that flue-cured tobacco produces by far the highest farm value per acre. In 1962 it was \$788 (even exceeded by an all-time high of \$881 in 1960) as compared with \$46.50, the average for all remaining field crops or, put another way, in about the ratio of 17:1. In all, tobacco accounts for about one-fifth of Ontario's gross value of all field crops (amounting to some \$450 million annually) and for ten per cent of the Province's total farm cash income from the sale of all farm products.

Ontario's tobacco farmers supply over nine-tenths of the basic raw material used by the tobacco products industry which employs some 8,000 people. Its annual selling value of factory shipments totals approximately \$600 million (including excise duties and taxes) of which cigarettes account for more than \$500 million. More than half of this amount flows into Federal tax coffers — a substantial contribution to Government revenue. In 1960, the Federal Government collected \$379 million in excise duties and taxes levied on tobacco and its products.

In 1926, Canadian tobacco represented only about one-quarter of the cigarette tobacco consumed in our country. Today, more than 99 per cent of the tobacco used in the manufacture of Canadian cigarettes originates in Canada; 96 per cent of this is grown in Ontario. In addition to an almost complete coverage of our domestic needs, the tobacco growers have also, over the years, supplied varying quantities for export purposes. During the past five years the value of Canadian flue-cured tobacco exports has fluctuated between \$23 million and \$34 million. Our flue-cured tobacco is exported to more than 20 countries, of which the United Kingdom ranks first. Other importers of significance are West Germany, the United States, the Netherlands, Belgium and Jamaica. Additional export opportunities are being investigated. In September and October of last year, a Canadian Tobacco Trade Mission (the first of its kind representing the Canadian tobacco growing industry)

visited Western Europe, Eastern Europe and the Middle East. A direct result of this promotional effort was the sale of 3.7 million pounds of Ontario-grown flue-cured tobacco to eastern European countries through Bulgaria and of 100,000 pounds to Israel.

MARKETING

The grave marketing problems that in the early 1930's prompted Ontario farmers in general to demand the creation of strong bargaining organizations, also affected the flue-cured tobacco growers. Various factors, among others, the comparatively high capital investment involved in tobacco growing and processing, tend to make tobacco farmers even more vulnerable to the vagaries of uncontrolled competition.

When, as a result of a long period of agricultural unrest, The Canada Natural Products Marketing Act was enacted in 1934, Ontario flue-cured tobacco farmers and their associations did not hesitate to unite forces and in the same year, with the approval of the Canadian Government, the Ontario Flue-Cured Tobacco Growers' Marketing Board was established. The new scheme contributed to a measure of prosperity for farmers and satisfied buyers. Although, as a result of violent opposition by vested interests, the Act was declared unconstitutional in 1936, the organization of flue-cured tobacco growers and buyers (unlike many other marketing boards) did not disintegrate. As the Ontario Flue-Cured Tobacco Marketing Association, incorporated under the Ontario Companies Act, it functioned successfully for the next twenty-three years, bringing unprecedented prosperity to the Province's tobacco growers.

The Ontario Legislature acted swiftly to fill the gap left by the repeal of the Canada Natural Products Marketing Act by passing unanimously The Ontario Farm Products Control Act in 1937. Changed in name to The Ontario Farm Products Marketing Act in 1946 and amended several times since (most recently in 1960) it is still the regulatory basis for the marketing of many Ontario farm products. Probably because of its successful operation as a voluntary organization, the Flue-Cured Tobacco Marketing Association functioned outside the Ontario Farm Products Marketing Act for many years. In 1951, a number of growers made an abortive attempt to bring the organization under the Act, but it was not until 1957 that dissatisfaction with the leadership of the Association resulted in a decisive defeat of the voluntary organization in favour of a marketing scheme under The Ontario Farm Products Marketing Act.

One of the most significant functions of the flue-cured tobacco marketing organization has been the prevention of over-production. Peculiarities of the market made the tobacco grower particularly sensitive to the formation of surpluses. The most effective method of preventing excessive inventories has been a policy of acreage control. Flue-cured tobacco growing outside the association (free-lancing) took place from time to time, causing some disturbance among members. Occasionally freelance growers were admitted to membership, but this did not appear to solve the problem. Last year, the situa-

tion seemed to be eased when an Ontario Supreme Court decision dismissed the action brought by eight independent growers. An appeal to the Ontario Court of Appeal did not result in a reversal of the decision and the free-lancers have now decided to take the matter to the Supreme Court of Canada.

TOBACCO FARMING ELSEWHERE IN CANADA

Ontario is not the only Province in Canada where flue-cured (bright) tobacco is grown. At present four other provinces engage in its production on a relatively limited scale as shown in the following table.

FLUE-CURED TOBACCO ACREAGE IN CANADA, BY PROVINCES, 1963

	<u>Acreage</u>	<u>Per Cent of Total</u>
New Brunswick	128	0.1
Nova Scotia	215	0.2
Prince Edward Island	450	0.4
Quebec	5,495	5.1
Ontario	<u>102,000</u>	<u>94.2</u>
Canada	<u>108,288</u>	<u>100.0</u>

In some of the Maritime Provinces flue-cured tobacco growing is done more or less on an experimental basis with the hope, however, that these initial efforts will form the foundation for a sound and expanding industry. Acreage devoted to tobacco growing is on the increase in eastern parts of Canada. Although the competitive danger is not very significant as yet, there is some concern among Ontario growers that rising production of flued-cured tobacco outside Ontario may make acreage control, as presently exercised under Provincial legislation, ineffectual.

TRENDS IN CONSUMPTION

In previous centuries the emphasis in smoking was largely on pipe tobacco and cigars. The two world wars have given strong impetus to the consumption of cigarettes. Along with this shift, we have seen that the smoking habit, at one time practiced mainly by men, was adopted increasingly by both sexes. The result has been a greatly augmented consumption of tobacco — particularly of bright tobacco — on a world-wide basis.

In recent years, the tobacco industry has, from time to time, been confronted with reports indicating that smoking may entail serious health hazards. When in March, 1962, the Royal College of Physicians published its report on this issue in the United Kingdom, the consumption of cigarettes experienced a sharp drop in that country. After a few months, however, sales regained

their former level. In November, 1963, participants at the Canadian Conference on Smoking, with the exception of the tobacco industry, accepted the suggested link between heavy cigarette smoking and lung cancer as fact. The most recent report on the subject is that of the United States Surgeon General; it is reported that cigarette sales have dropped since publication.

The effects of the publicity received by reports on the link between cigarette smoking and lung cancer cannot be ignored. Taking into account, however, that despite a growing awareness on the part of the population of the possible health hazard involved, cigarette consumption has not been adversely affected, tobacco growing is likely to further expand.

PROSPECTS

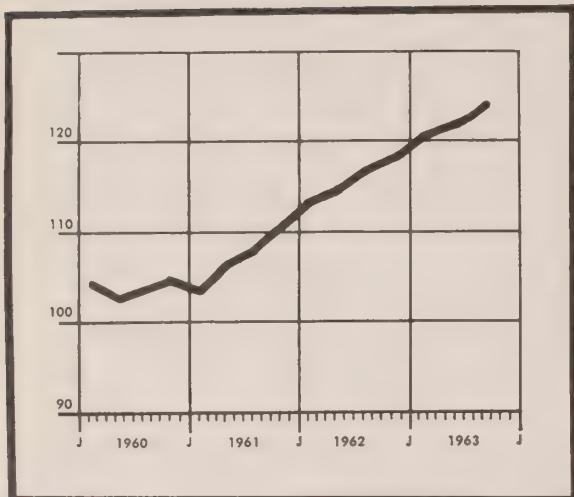
Two basic factors contribute to a considerable expansion potential for the tobacco industry in Ontario: firstly, the availability of suitable soil in the Province and secondly, the development of export markets which have barely been tapped. Since present production is carried out on a drastically reduced acreage, it can be safely assumed that the immediately available land is sufficient to increase present production levels by 50 per cent. The potentially available land for flue-cured tobacco in Ontario is estimated at ten times the presently utilized acreage.

Although flue-cured tobacco has been exported from Ontario in appreciable quantities in recent years, averaging some 18 per cent of the total annual production, it seems that stepped-up expōt promotion could multiply this amount in the foreseeable future. The Canadian Tobacco Trade Mission, on returning from its sales campaign in Western and Eastern Europe in the fall of last year, reported:

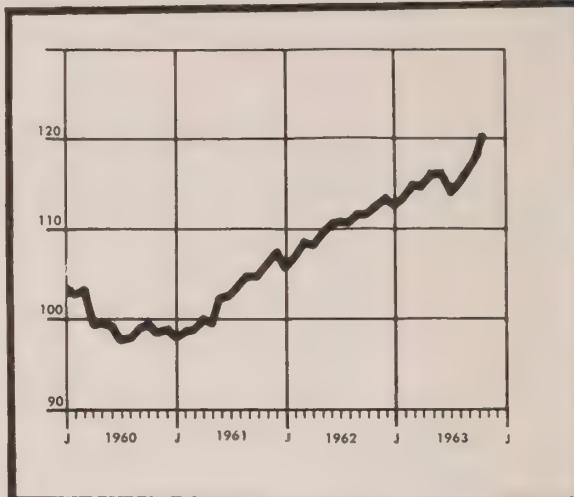
"In most of the countries visited, the mission found a general lack of knowledge and information on the technical and quality aspects of Canadian tobacco, but at the same time a high degree of interest. In most cases no concentrated approach had previously been made and there was a noticeable lack of awareness of Canadian flue-cured and burley tobaccos and some surprise at the volume, quality and potential production of the Canadian industry."

The further development of export markets will tend to strengthen the industry. Not only will it decrease the growers' dependence on the decisions made by a relatively small group of major buyers in the home market, but it will also open the door to a promising further growth within this sector of our agriculture. Given a continuation of untiring effort towards quality improvement and market expansion, the Province's tobacco industry may look to the future with confidence.

ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



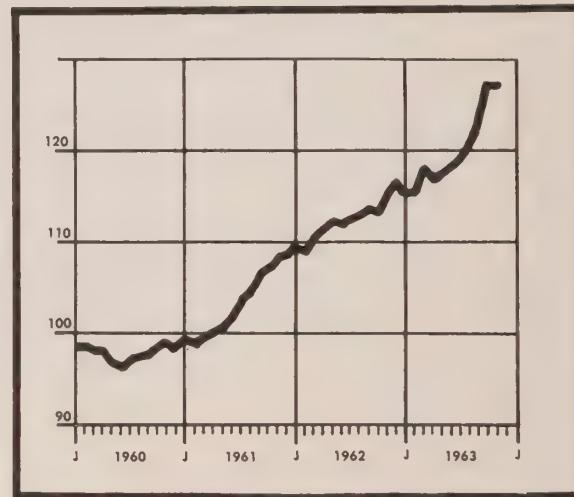
GROSS NATIONAL PRODUCT (CANADA)



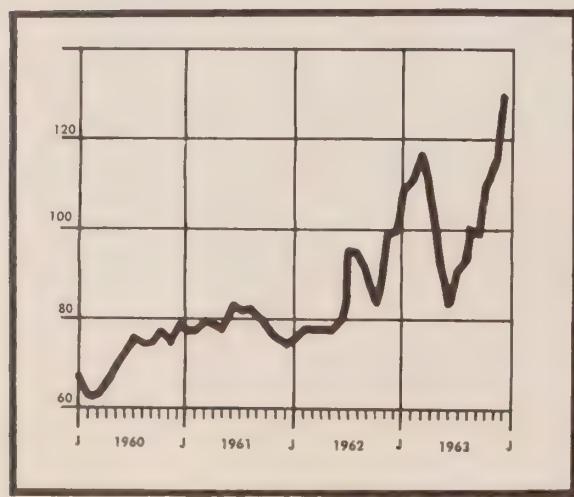
INDEX MANUFACTURING PRODUCTION (CANADA)



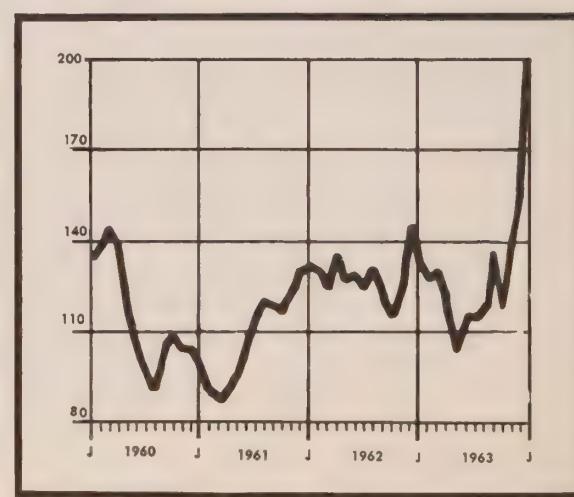
PRIMARY ENERGY DEMAND — OHPC
(ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

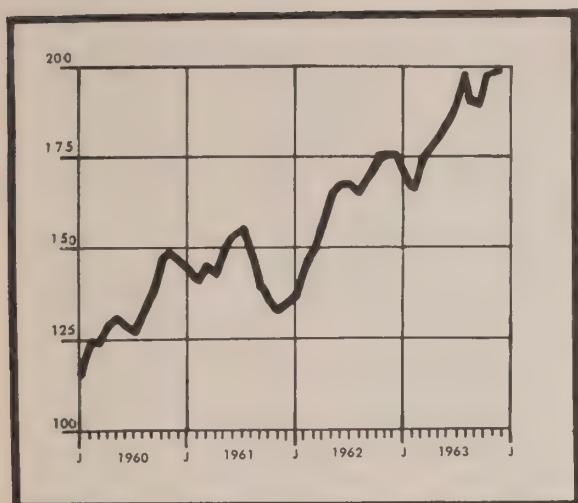


HOUSING CONTRACTS (ONTARIO)

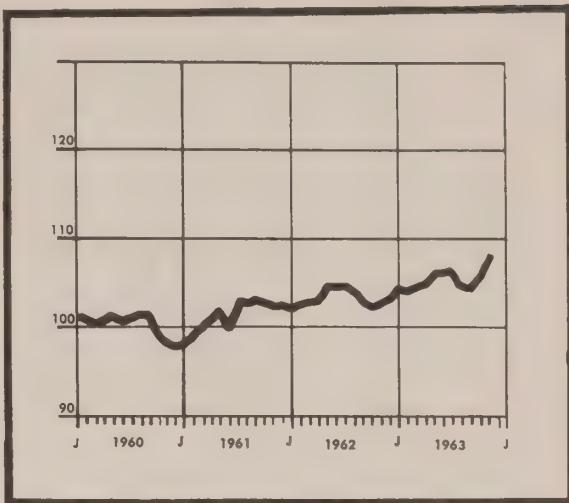


BUSINESS, INDUSTRIAL AND ENGINEERING
CONTRACTS (ONTARIO)

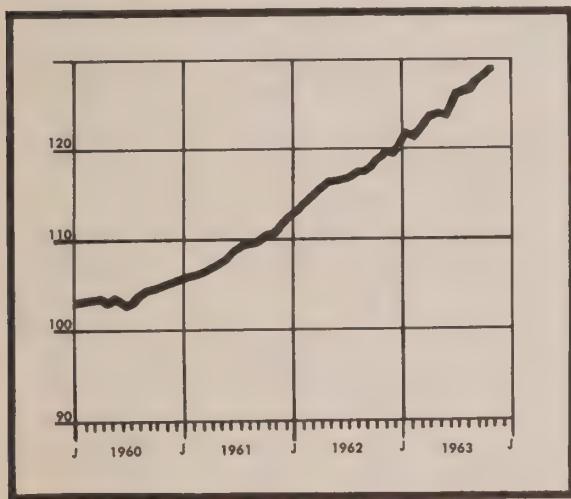
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



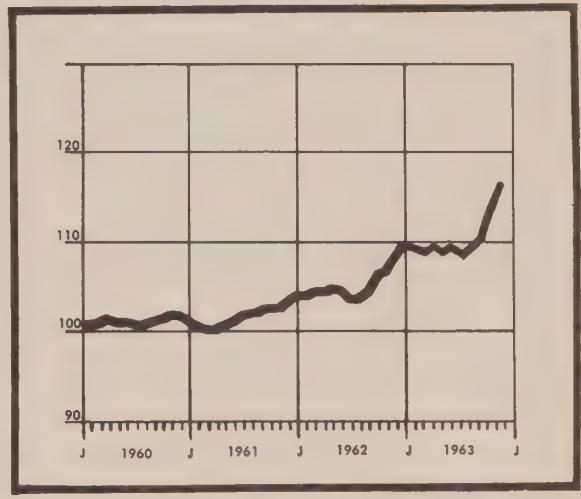
BUSINESS, FAILURES — NUMBER (ONTARIO)



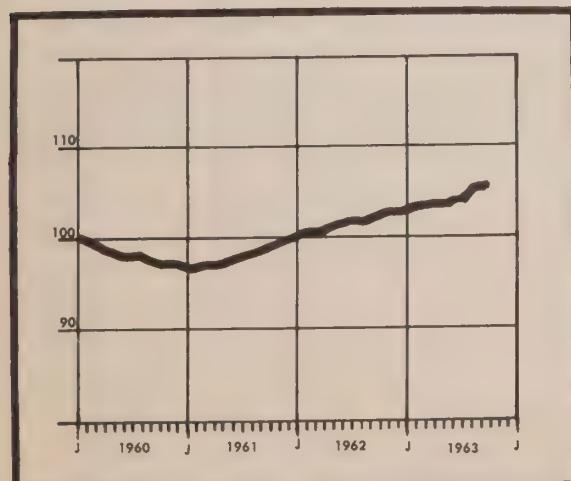
PRICES, INDUSTRIAL MATERIALS (CANADA)



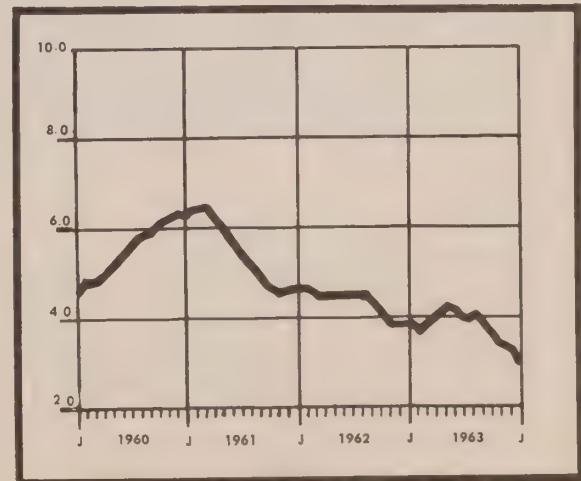
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



**UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)**

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(*Figures for Canada)

LEADING INDICATORS											
	December	January	February	March	April	May	June	July	August	September	October
Average Weekly Hours Worked in Manufacturing	(No.)	40,786	40,783	40,781	41,185	41,188	40,990	40,897	40,894	41,092	41,295
Business Failures - Number	\$ 000 Million	4,182	3,694	3,618	4,936	6,003	6,586	6,783	7,540	5,254	5,307
Business Failures - Liabilities	\$ Million	2,330	2,306	2,361	2,331	2,352	2,368	2,397	2,415	2,470	2,520
New Orders in Manufacturing*	(No.)	2,839	3,015	3,325	3,628	3,665	4,076	4,193	4,086	4,062	3,986
New Dwelling Unit Starts	\$ Million	43.4	47.4	48.2	50.8	45.5	40.2	35.8	39.6	43.2	43.0
Housing Contracts	\$ Million	92.9	84.7	81.7	83.1	75.3	66.8	73.8	73.4	75.8	86.5
Business, Industrial and Engineering Contracts	\$ Million	15,267	15,391	15,563	15,576	15,629	15,755	16,005	16,107	16,116	16,434
Money Supply*	\$ Millions	16,797	16,797	16,797	16,797	16,797	16,797	16,797	16,797	16,797	16,797
<u>COINCIDENTAL AND LAGGING INDICATORS</u>											
Gross National Product*	\$ Millions	41,252	-	-	-	-	-	-	-	-	43,016
Total Industrial Production*	1949-100	189.7	189.4	191.1	194.0	194.3	195.7	195.8	192.8	195.1	197.7
Total Manufacturing		169.9	168.8	169.4	172.0	171.7	173.8	170.8	173.3	174.7	177.4
Non-Durables		167.4	165.9	167.3	172.7	170.8	172.8	173.4	170.5	173.3	175.1
Durables		172.8	172.1	171.9	171.1	172.8	174.9	174.3	171.2	172.6	176.5
Mining		283.6	281.1	291.5	299.5	302.1	297.5	298.3	286.0	292.1	304.1
Electric Power & Gas Utilities		351.4	351.7	353.6	351.3	356.2	359.7	361.5	373.9	366.2	373.1
Cheques Cashed in Clearing Centres	\$ Millions	3,024	3,085	3,098	3,140	3,196	3,179	3,185	3,201	3,200	3,214
Retail Trade	\$ Millions	563	570	569	567	570	566	568	566	564	570
Labour Income	\$ Millions	730	748	744	748	757	759	756	771	782	788
Labour Force Employed	000's	2,415	2,420	2,422	2,426	2,444	2,455	2,467	2,473	2,482	2,488
Unemployed	000's	2,324	2,329	2,332	2,335	2,346	2,353	2,366	2,376	2,382	2,389
Unemployed as % of Labour Force	%	91	91	90	91	91	102	101	97	100	93
Industrial Employment Average Hourly Earnings in Manufacturing	\$ Millions	124.6	125.0	125.2	125.5	125.8	125.8	126.2	126.6	127.0	127.7
Primary Energy Demand - OPEC New Dwelling Unit Completions	Barrels (No.)	2,01	2.01	2.02	2.02	2.03	2.04	2.04	2.05	2.05	2.06
<u>ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED</u>											
T.S.E. Index - 77 Stocks	1956-100	124.2	129.8	125.3	127.9	134.1	136.2	131.9	127.9	129.0	132.3
Dividend Payments*	1956-100	119.1	119.3	120.2	120.8	118.6	119.3	119.7	120.4	120.7	122.3
Prices, Industrial Materials*	1935-39-100	247.7	250.8	250.0	250.3	252.1	254.8	255.3	251.4	251.0	254.9
Domestic Exports*	\$ Millions	493.6	530.6	424.6	487.7	514.2	515.7	592.8	543.2	624.7	620.4
Imports for Consumption*	\$ Millions	437.5	504.8	431.3	478.2	554.6	609.3	532.9	585.2	542.7	563.1
Foreign Exchange Reserves*	\$ Millions	2,539	2,663	2,794	2,736	2,687	2,625	2,762	2,894	3,392	3,475

THE ONTARIO ECONOMY

The latest economic developments in Ontario's economy indicate a continuance of an active business environment with only one or two exceptions. Consumers are displaying confidence in the future as they undertake a wide range of purchases including automobiles. Industrial production continues to rise and intentions for new capital spending, just released, indicate a rise of 4.6 per cent over last year, with practically all major categories, except petroleum refining, showing increases. The employment situation is at its best for seven years. Construction contracts fell off in February, but it is still too early to tell whether a downward trend will occur.

PRODUCTION

Ontario's two big industrial leaders, the automobile and steel industries, were fairly representative of industrial activity throughout the province. Production continued to rise in January and February. It is difficult to believe that the automobile industry will continue at the same high level of activity throughout 1964. Nevertheless, its performance for the first two and a half months of this year is one of increasing gain over the preceding year. Cumulative production in January was about 23 per cent higher than it was a year earlier. It dropped off to about 20 per cent in the first week of February but has been expanding ever since. By March 21 cumulative production was more than 26 per cent ahead of the same period last year. In January, (the latest month available) automobile sales were 19 per cent higher than they were a year earlier.

Steel production also remains high. In the first two months output surpassed the levels of a year earlier and for the week ending February 8, 1964, steel production exceeded the previous peak set in May 1963. In the United States, steelmakers are not only experiencing similar production runs but expect output in March to rise another 8 per cent over February, and perhaps another 5 per cent in April.

They feel that any possible slowing in demand from automakers will be more than offset by a strong demand for steel from the construction industry. In addition they believe that steel inventory liquidation was taken too far last year and that metal working activity is running ahead of expectations so far this year.

Additional productive activity within the province can be expected with the Toronto Transit Commission's award to Hawker-Siddeley's Canadian Car Division in Fort William to build 164 new subway cars for the east-west line. This is a \$16.4 million contract and is expected to provide work for more than 1,000 persons over a period of a year and a half. Some of the assembly of controls which must be largely imported, will be done by Canadian Westinghouse in Hamilton. It is expected, however, that about 90 per cent of the materials used on the finished cars will be manufactured here in Ontario.

The transfer of Studebaker's manufacturing base to Hamilton has coincided with interest shown by two other companies in the area. These were the Delman Company, of Tennessee and Iowa, producer of windshield wiper and washer assemblies, and Arvin-Standard Limited, (a merger of Arvin Industries Limited, of Columbia, Indiana and Standard Tube and TI. Limited of Woodstock, Ontario), makers of automobile exhaust systems.

Colour television picture tubes will be produced in Ontario by R.C.A. Victor Co. Ltd. at their plant in Prescott, bringing the total Canadian-made content of their coloured T.V. sets to 85 per cent. The Company is expected to spend an additional \$1 million in expanding their facilities at Prescott during the next two years.

NEW CAPITAL INVESTMENT

The recently published public and private investment expectations for this year indicate that new investment in Ontario, although it is rising more slowly than in some other provinces, will be up by 4.6 per cent on total new investment last year. This

compares with a 5 per cent increase in 1963. Most of the major sectors of the economy indicate some expansion in investment except the petroleum refining industry where heavy competition within the industry and competition from the gas companies has discouraged additional expenditures at this time. Broadly speaking, investment on machinery and equipment will be given the most emphasis. It is expected to rise by 9.8 per cent over last year compared with an increase of 1.6 per cent for construction. Nevertheless, housing construction alone is expected to increase by 11.5 per cent, compared with 6.5 per cent last year. A slight drop is actually expected for construction in the combined business, industrial and engineering sector.

Construction data for February indicated that there may be some softening in both the housing, and combined business, industrial and engineering sectors. The value of housing contracts, on a seasonally adjusted basis, dropped in February after reaching a peak in January. February's level, however, is still considerably higher than it was all last year, except in December when it was the same. Business, industrial and engineering contracts were down for the second successive month in February, after reaching a peak in December last year. It is still too early, however, to discern any downward trend in this area.

A list of new projects, announced recently, illustrates capital investment intentions in the province. Dominion Foundries and Steel, in Hamilton expects to spend about \$29 million this year for new facilities, against a little more than \$18 million last year. Massey-Ferguson plans to spend about \$45 million in production development and capacity expansion, Canadian International Paper expects to spend about \$9 million to improve its mill, plant and woodland operations, Polymer Corporation Ltd. will spend \$14.6 million on capital improvements, and R. L. Crain Ltd., designers and manufacturers of business forms, will make a \$2 million investment, partly for a new plant in Toronto, and partly to modernize their facilities in Ottawa. A huge \$120 million program announced by General Motors will include a new truck plant at Oshawa and a car interior trim plant at Windsor. The bulk of expenditures are as yet uncertain.

New commercial and institutional construction includes a \$7.5 million warehouse complex in Agincourt by Syndican Agincourt Ltd., a new \$5.5 million Ontario Research Foundation building in

Toronto township, a \$5 million development scheme to transform the Yonge Street Arcade into a large office-rental complex, a \$2 million plan by United Gas to build a 10-story office building in downtown Hamilton, and the construction of a \$2 million motor hotel in downtown Sault Ste. Marie by Empire Hotels. An important public contract was also recently let to Dufferin Construction Co. to widen to 12 lanes a section of highway 401 north of Toronto between Avenue Road and Keele Streets. The contract was valued at \$4.3 million.

EMPLOYMENT AND SALES

The high level of business activity in the manufacturing and construction industries continues to provide ample jobs and to stimulate consumer purchases. Employment in February was maintained at the same high level as in January and unemployment eased again to 2.8 per cent of the labour force, on a seasonally adjusted basis.

The trend in total retail trade continues to rise and reached a new peak in January. Once again, a high level of new car sales was in the forefront of total sales. Sales of both new and used cars are on the upswing because of the high scrappage rate of old cars and the growing demand for either a second new or used car in the family. Sales from the Studebaker Corporation plant in Hamilton now includes the entire North American market. In addition, Studebaker intends to export between 5,000 and 8,000 cars a year to Australia, New Zealand, South Africa, Israel, Belgium and Chile.

TOURISM

Further transactions with other countries has recently been exemplified by the tourist industry. The devalued Canadian dollar has attracted more visitors than ever to this country, especially from the United States. It was estimated that about 90 per cent of U.S. tourists travelling abroad last year came to Canada and roughly three-quarters of them came to Ontario. The Department of Tourism and Information estimates that U.S. tourists alone spent \$330 million in Ontario in 1963.

TOBACCO

The recent flare-up in the tobacco industry has been the result of extreme variability in prices received at auctions. Some prices have also been lower than usual because of the removal of a minimum

price restriction. In the last two years, tobacco has not moved as fast as usual and has tended to pile-up unsold. The reasons may be a combination of buyer's decisions to stock less than normal at this time and increasing competition from abroad. In any event, growers who have made heavy investments in land and equipment, feel the pinch of marginal price reductions very strongly. The whole question of tobacco marketing in the province is currently under review.

FINANCE

Canadian monetary conditions tightened slightly during February as the demand for loanable funds tended to exceed the supply. The total money supply in Canada contracted from \$16.7 billion at the end of January to a level of \$16.6 billion at the end of February. Interest rates accordingly were subjected to fractional upward revisions.

Announcement of fiscal 1965 Federal spending estimates of almost \$7.6 billion, an increase of just more than a half a billion dollars over the comparable 1964 estimates, had a dampening effect on prices in virtually all sectors of the Canadian bond market this month. The downward adjustment in prices of outstanding bond issues, however, was fractional and the volume of trading remained extremely light. Little change in prices or trading volume was anticipated prior to the Federal Budget brought down on March 16th. New Canadian bond financings for the first two months of 1964 at \$584.3 million were down 24.9 per cent from the \$777.4 million raised in the comparable 1963 period. Highlighting new issues of this month was a three-part \$50 million Quebec Hydro Commission debenture issue. \$38 million of this issue consisted of 20-year bonds priced at \$97.25 to yield 5.73 per cent.

Prices of industrial equities on Canadian stock exchanges fluctuated within a narrow range throughout February. For example, the Toronto Stock Exchange Industrial Index moved within a 1½ point closing range to end the month at a level of 139.70. The volume of trading has subsided to its lowest level in several months. Despite bullish performances on the New York Stock Exchange, a cautious sentiment prevailed on the Canadian stock markets until provisions of the Federal Budget were announced.

Canada's foreign exchange reserves (official holdings of gold and U.S. dollars) declined by \$40.1

million during February to close at a level of \$2,542.3 million. A repayment of \$60 million during this period was made to the International Monetary Fund reducing Canada's borrowings from the I.M.F. to \$137 million. When this transaction is taken into account and the fact that seasonal factors have historically resulted in a decline in the reserves during February, the change is essentially an improvement in our reserves position.

The values of the Canadian dollar in terms of U.S. funds remained relatively unchanged throughout February. At month-end the Canadian dollar was quoted at 92.56 cents U.S.

FEDERAL BUDGET 1964-65

On March 16th, 1964, Finance Minister Gordon presented the 1964 Budget to Parliament. A deficit of \$455 million is forecast for 1964-65 arising out of estimated expenditures of \$7.2 billion and revenue of \$6.7 billion. While this is the eighth deficit budget in a row, bringing the total to just over \$4 billion since 1957-58, it is pertinent to note that the anticipated deficit for next year is a decrease of \$230 million from the \$685 million now forecast for 1963-64. The reduced deficit is attributable to two factors, namely a sharp increase (\$493 million) in revenues and a lower rate of growth (\$263 million) in expenditures.

In essence, no tax cuts are contained in this Budget though some tax incentives are extended. Additional family allowances are provided and further concessions to students are made. The increased 5 per cent non-resident withholding tax which was to have been levied next year on certain dividend payments is repealed. Legislation is proposed to increase the proportion and range of assets that can be held by insurance companies, together with amendment of valuation rules to make equity investment more attractive to them. No sales or excise tax changes are contemplated, and the graduated increases announced in the last Budget in respect of building materials and production equipment will be implemented as scheduled.

CONCLUSION

The overall economy of Ontario remains buoyant. A high level of purchases, especially of automobiles, provides a solid base to the economy. Overall employment is well maintained and the unemployment ratio is below 3 per cent.

CANADA'S REQUIREMENTS FOR NEW BUSINESS MACHINERY AND EQUIPMENT FROM 1965 TO 1975

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The conclusion of this article is that Canada will require almost \$64 billion worth of new business⁽¹⁾ machinery and equipment during the period 1965 to 1975—a sum almost 50 per cent larger than Canada's Gross National Product in 1963.

During the period 1954 to 1964, business expenditures for new machinery and equipment amounted to \$31,380 million in constant 1963 dollars, so the estimated requirements in the period 1965 to 1975 represent a doubling of expenditures.

The method used here in forecasting requirements is to estimate the needs for replacement of old machinery and equipment and to calculate the additional, or net, investment that will be necessary to provide a capital stock appropriate to the needs of growth in the total output of goods and services in the Canadian economy.

⁽¹⁾ In addition there will be requirements for public investment in new machinery and equipment.

The average life expectancy of machinery and equipment is assumed to be 15 years. Various studies in the past have concluded that this is a fair approximation, and Hood and Scott⁽²⁾ state that the average in the mid-1950's was about 15 years.

On the basis of this assumption, it is estimated that replacement demand for business machinery and equipment will more than double over the period 1965-1975. Table I shows the amount of gross investment for new machinery and equipment during the years 1939-1949 and 1950-1960. During the period 1954 to 1964 business was discarding worn out machinery and equipment much of which had been installed in 1939-49, and during 1965-1975 business will be discarding much of the machinery and equipment installed during 1950-1960.

⁽²⁾ Output, Labour and Capital in the Canadian Economy, W. C. Hood and A. Scott, for Royal Commission on Canada's Economic Prospects, page 274.

TABLE I
ANNUAL GROSS BUSINESS INVESTMENT IN NEW MACHINERY AND EQUIPMENT IN CANADA,
IN CONSTANT 1949 DOLLARS

1939-1949		1950-1960	
Year	\$ millions	Year	\$ millions
1939	427	1950	1,346
1940	638	1951	1,500
1941	802	1952	1,616
1942	682	1953	1,715
1943	389	1954	1,505
1944	496	1955	1,557
1945	618	1956	1,965
1946	777	1957	1,995
1947	1,186	1958	1,650
1948	1,270	1959	1,735
1949	1,318	1960	1,770
Total	8,603		18,354
% Change 1939-49 to 1950-60			113.3

Table II, which shows the capital investment statistics for Canada's corporations, indicates that the jump in replacement demand has already appeared. These figures are derived from Taxation Statistics, published by the Canada Department of National Revenue. The derived replacement figures cannot be taken literally, because the gross investment and gross stock figures are based on a sample each year, but one cannot ignore the trend, nor the steep rise in derived implicit replacement beginning in 1959. Furthermore, the figures for annual gross investment, in the first column, indicate the

polated from 1966 to 1976. The real rate of growth (the compound annual percentage increase based on constant dollar Gross National Product) has been about 3.8 per cent since 1959, and there are good possibilities that this rate can be improved on in the future.

It is considered that the capital stock of machinery and equipment will have to increase at a considerably faster rate than 4 per cent. The reason is that in 1946 it required 50.5 cents worth of machinery equipment to produce \$1.00 of goods and services in the economy. By 1956, this figure had risen to

TABLE II
ANNUAL GROSS INVESTMENT, REPLACEMENT, NET INVESTMENT, AND GROSS CAPITAL STOCK OF BUILDINGS AND EQUIPMENT FOR FULLY-TABULATED CORPORATIONS IN CANADA,
1948-1961

<u>Year</u>	<u>Annual Gross Investment</u>	(Millions of Dollars)	<u>Derived Annual Net Investment</u>	<u>Gross Capital Stock of Buildings and Equipment</u>
<u>Implicit Replacement</u>				
1947	1,004.9			9,114.0
1948	1,220.5	268.3	952.2	10,066.2
1949	1,174.4	418.8	755.6	10,821.8
1950	1,182.5	206.7	975.8	11,797.6
1951	1,723.5	191.2	1,532.3	13,329.9
1952	2,002.2	464.1	1,536.1	14,866.0
1953	2,224.4	202.0	1,922.4	16,788.4
1954	2,171.1	218.2	1,952.9	18,741.3
1955	2,644.5	924.5	1,720.0	20,461.3
1956	3,301.7	319.8	2,981.9	23,443.2
1957	4,016.3	731.8	3,284.5	26,727.7
1958	3,664.8	574.2	3,090.6	29,818.3
1959	3,473.5	1,206.5	2,167.0	31,985.3
1960	3,758.8	764.0	2,994.8	34,980.1
1961	3,629.2	1,200.4	2,428.8	37,408.9

acceleration that may be expected in the capital stock that will wear out and require replacement in the future.

The next step is to establish the size of the capital stock of machinery and equipment that will be required to produce the goods and services expected to be produced in the Canadian economy. For this purpose it is assumed that the real rate of growth in the economy will average 4 per cent from 1963 to 1966 and a 4 per cent growth rate also is extra-

73.6 cents and by 1963 to 85.5 cents. The average annual increase was about 2.4 cents.

When one has forecast the G.N.P. for a particular year and the amount of the capital stock of machinery and equipment that will be required to produce each dollar of G.N.P., then by multiplying, one can obtain the total capital stock of these producers' goods that will be required. When this has been done for each year, one can then calculate the net increase in the capital stock that will be required

TABLE III
LAGGED CAPITAL-OUTPUT RATIO FOR BUSINESS MACHINERY AND EQUIPMENT IN CANADA,
1945 TO 1963, IN CONSTANT 1949 DOLLARS

Year	(Millions of Dollars)						Lagged Capital-Output Ratio
	Annual Gross Investment	Replacement	Annual Net Investment	Gross Capital Stock	Gross National Expenditure		
1945	618			7,694	15,552		
1946	777	286.9	490	8,184	15,251	.505	
1947	1,186	301.9	884	9,068	15,446	.530	
1948	1,270	303.6	966	10,034	15,735	.576	
1949	1,318	337.8	980	11,014	16,343	.614	
1950	1,346	319.8	1,026	12,040	17,471	.630	
1951	1,500	481.6	1,018	13,058	18,547	.648	
1952	1,616	482.0	1,134	14,192	20,027	.652	
1953	1,715	427.3	1,288	15,480	20,794	.683	
1954	1,505	494.8	1,010	16,490	20,186	.767	
1955	1,557	528.8	1,028	17,518	21,920	.752	
1956	1,965	802	1,163	18,681	23,811	.736	
1957	1,995	682	1,313	19,994	24,117	.775	
1958	1,650	389	1,261	21,255	24,397	.820	
1959	1,735	496	1,239	22,494	25,242	.842	
1960	1,770	618	1,152	23,646	25,805	.872	
1961(prel.)	1,626	777	849	24,495	26,468	.893	
1962(prel.)	1,717	1,186	531	25,026	28,111	.871	
1963(est.)	1,846	1,270	576	25,602	29,275	.855	

for each year. By adding this net investment of a particular year to the replacement requirements for the year, one obtains the amount of gross investment in new machinery and equipment required in that year.

Table III shows the figures for annual gross investment (consisting of replacement plus annual net investment), the gross capital stock of business machinery and equipment, the Gross National Expenditure (all in constant 1949 dollars), and a lagged capital-output ratio. The lagged capital-output ratio is calculated by dividing the Gross National Expenditure of one year into the gross capital stock of the preceding year.

The replacement figures for the years 1946 to 1955 in Table III are those calculated by Hood and Scott by analysis of each industry in detail and summing the results for all industries to obtain the total replacement for each year. For the years from

1956 on, the replacement figures are simply those for gross investment 15 years earlier. The capital stock figures for the years 1945 to 1955 are those of Hood and Scott adjusted upward to allow for subsequent revisions by the Dominion Bureau of Statistics in the statistics for annual gross investment. For the years after 1955, the replacement is subtracted from gross annual investment to obtain net annual investment, which is added to the preceding year's capital stock to obtain the stock for the current year.

The table shows that the estimated lagged capital-output ratio declined in 1962 and 1963. This decline resulted from acceleration in the rise in Gross National Expenditure combined with the lower levels of net investment. In this analysis it is assumed that the lagged capital-output ratio will continue to decline temporarily but will turn around in 1967 and thereafter rise at .015 points per annum, so that the rate of rise from 1963 to 1976 would be about

TABLE IV
**ESTIMATED ANNUAL GROSS BUSINESS INVESTMENT IN NEW MACHINERY AND EQUIPMENT
 IN CANADA, 1965-1975, IN CONSTANT 1949 DOLLARS**

Year	Gross National Expenditure	Lagged Capital- Output Ratio	(Millions of Dollars)			
			Gross Capital Stock	Annual Net Investment	Replacement	Annual Gross Investment
1965			26,997	780	1,346	2,126
1966	32,931	.820	28,426	1,429	1,500	2,929
1967	34,248	.830	30,097	1,671	1,616	3,287
1968	35,618	.845	31,857	1,760	1,715	3,475
1969	37,043	.860	33,709	1,852	1,505	3,357
1970	38,525	.875	35,659	1,950	1,557	3,507
1971	40,066	.890	37,710	2,051	1,965	4,016
1972	41,669	.905	39,869	2,159	1,995	4,154
1973	43,336	.920	42,140	2,271	1,650	3,921
1974	45,069	.935	44,528	2,388	1,735	4,123
1975	46,872	.950	47,040	2,512	1,770	4,282
1976	48,747	.965				

one-half the rate from 1955 to 1963, in terms of compound annual percentage changes.

On the basis of the assumptions regarding the real rate of growth in G.N.E. and the changes in the lagged capital-output ratio, the statistics on investment have been calculated and are shown in Table IV. It has been necessary to project on an annual basis in order to obtain yearly figures that can be summed over the period 1965 to 1975, but one should not take seriously a figure for any particular year. The economy will have its fluctuations in the future as in the past, so that in reality the investment figures will show even more variability than indicated in the table, and G.N.E. figures will fluctuate with a rising trend rather than rising at a steady rate.

The figures for annual gross investment by business in new machinery and equipment in Table IV sum to \$39,177 million in constant 1949 dollars, and converted to 1963 dollars they amount to \$63,700 million, for the period 1965 to 1975.⁽¹⁾

Is it reasonable to expect the capital-output ratio to rise to .965 by 1975? This would require a 28.3 per cent increase in the ratio from 1955 to 1975. This is very nearly the same as the rise of 26.2 per cent

forecast for this period by Hood and Scott, after very detailed and thorough analysis of individual industries, for the Royal Commission on Canada's Economic Prospects.⁽²⁾ (Their capital-stock ratio was calculated by dividing the capital stock of machinery and equipment by the Gross Domestic Product at Factor Cost in business, both in constant 1949 dollars). For the period 1955 to 1980, Hood and Scott forecast the following percentage changes in the respective capital-output ratios for machinery and equipment for six sectors of the economy⁽³⁾:

Agriculture	33.8
Resource industries	37.5
Primary manufacturing	35.5
Secondary manufacturing	32.7
Transport, storage and communication	10.2
Trade, services and construction	109.3

It would seem reasonable to assume there will be increasing capital intensiveness of operations in the general economy. Automation is a swiftly growing factor in the economy, in tertiary industries as well as manufacturing, and throughout the economy, labour is being supplied with increasing amounts of

⁽¹⁾ These figures exclude public investment in new machinery and equipment.

⁽²⁾ Output, Labour and Capital in the Canadian Economy, page 285.

⁽³⁾ Hood and Scott, op. cit., pages 296-298.

capital in order to produce goods and services. Lastly, it may be noted that during the ten years 1951 to 1961 the capital-output ratio for buildings and equipment in Canada's corporations increased 41.2 per cent, in terms of current dollars.⁽¹⁾ This degree of thrust in a capital-output ratio is so strong that it would appear the onus would be on one who would argue that the ratio would cease rising. Nevertheless, one is inclined to err on the conservative side and the projection used for the present purpose is one of only 12.9 per cent during the thirteen years from 1963 to 1976 (or about one-third the rise in the previous thirteen years). If the real annual compound rate of economic growth accords with the projected 4 per cent, and the capital-output ratio rises faster than the rate projected here, then the amount of gross business investment in machinery and equipment over the period can be considerably larger than the \$64 billion of this forecast.

The next obvious question concerns the timing of the upturn in the lagged capital-output ratio. As may be seen in Table IV, it is anticipated that the lagged ratio will rise in 1967, which means there would be a sharp rise in gross investment in 1966. (The lagged ratio is calculated by dividing the G.N.P. in one year by the capital stock of the preceding year.) If the ratio is to rise over the period, it must begin rising at some point and the question is: When? The general answer is that the economy has been rising for over three years, the unemployment ratio in Ontario has been reduced below 3 per cent, and nearly all industries have approached capacity operation. If growth is to continue as expected, capacity must be increased, and when it is increased it will be by an amount that discounts expected rises in output for a period ahead.

Furthermore, as business confidence in prospective markets and profits improves, it will be realized that the earlier a firm is prepared to serve the growing market the longer will be the period of profitable operations. Each firm that desires to protect, let alone improve, its position in the market must ensure that it does not lag behind its competitors in raising its capacity. Furthermore, the laggards will be confronted with full order books in the machinery and equipment industry. It appears that business is already aware of this situation, and a competitive race for capacity has already begun in most manufacturing industries in Ontario, where machinery and equipment expenditures are expected to rise from \$370.7 million in 1959 to \$584.6 million in 1964.

Lastly, it is important to note that the capital stock situation in the United States is similar to that in Canada. There is a tremendous amount of capital stock that must be replaced at the same time that the economy, after over three years of growth, is approaching capacity operations and the capital stock must be increased to keep ahead of the market. If the real rate of growth increases in the United States and investment surges ahead, we can expect raw material prices to rise faster, Canada's mineral exports to rise quickly, and the beginning of another surge in Canada's mineral development, which will accelerate market growth in the Canadian economy and reinforce the rise in requirements for machinery and equipment throughout the industrial economy.

United States economists expect capital investment to rise by 8 to 10 per cent this year, and, assuming favourable monetary and fiscal policies, and the successful implementation of adequate substitutes for devaluation, the tax cut can be expected to provide considerably increased drive to the economy by 1966.

Taking all these points into consideration, it would seem reasonable to expect a strong rise in gross business investment in machinery and equipment in Canada by 1966.

On the other hand, increasing awareness in business that a surge in investment in new machinery and equipment is approaching, with its implications of rising prices, shortages and delays, and the competitive desire not to be caught short on a rising market while competitors improve their position, can motivate business to begin the upswing at an even earlier date, and, indeed, as indicated in Tables III and IV, annual gross investment is expected to rise from \$1,846 million in 1963 to \$2,126 million in 1965, in constant 1949 dollars.

One important question this prospect for the next eleven years raises is to what degree will Canadian producers of machinery and equipment participate in this vast market? During the past decade Canadian producers have contributed considerably less than one-half the market in Canada. (See Table V). During 1962 and 1963 they increased their share, but it remained well below one-half. It would appear, therefore, that one of the most hopeful areas for promoting economic growth in this country would be to expand the manufacture of machinery and equipment.

The smaller the proportion of total requirements supplied by Canada's domestic producers, the larger will be Canada's imports and the more severe will be the strain on Canada's balance of payments. If the Canadian industry can be expanded on a com-

⁽¹⁾ Derived from Taxation Statistics, Canada Department of National Revenue.

petitive basis this will reduce the need for imported supplies, reduce the burden on the balance of payments, and increase employment and incomes in Canada.

Assuming the real rate of economic growth is 4 per cent compounded annually to 1975, the total cumulative Gross National Expenditure from 1965 to 1975 will be \$426,532 million, compared to \$260,878 million in the period 1952 to 1962, and, making our assumptions regarding the increase in capital intensiveness, the business requirements for new machinery and equipment will be \$39,177 million compared to \$18,851 million, all figures in

constant 1949 dollars. This means that the capital requirements for business machinery and equipment would rise from 7.2 per cent of G.N.P. in the 1952-62 period to 9.2 per cent in the 1965-75 period.

Thus a growing economy will create heavy new demands for business machinery and equipment, owing to increasing replacement requirements and rising capital intensiveness. This presents a golden opportunity for manufacturers of producers' goods to increase capacity and production. At the same time, it will bring problems to the economy in the form of increased imports of producers' goods and an accelerated need for savings.

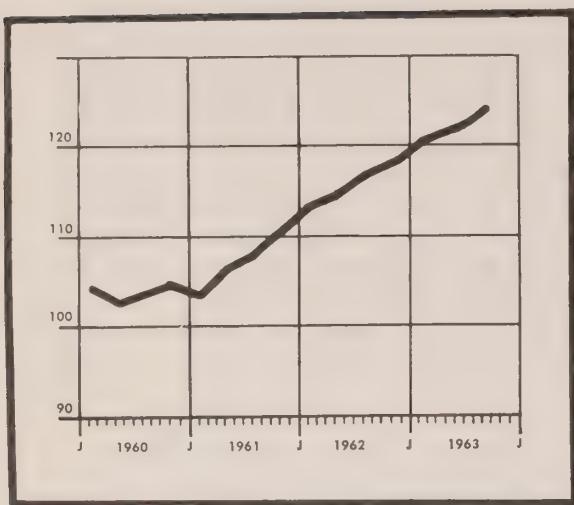
TABLE V

THE DOMESTIC AND IMPORTED SHARES OF PRIVATE AND PUBLIC INVESTMENT IN
NEW MACHINERY AND EQUIPMENT IN CANADA, 1950-1963

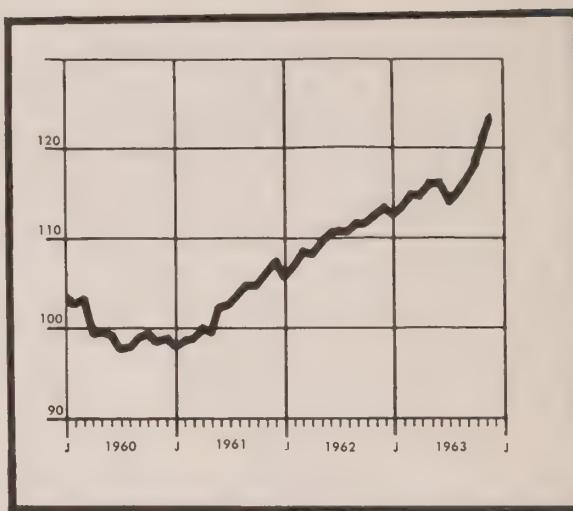
Year	(Millions of current dollars)					
	Total Private and Public Investment in New Machinery and Equipment	Business Investment in New Machinery and Equipment	Imported Supplies	Domestic Supplies	Percentage Shares of Total Private and Public Investment in New Machinery and Equipment Imports	Domestic
1950	1,483	1,423	587	896	39.6	60.4
1951	1,868	1,794	857	1,011	45.9	54.1
1952	2,057	1,952	1,026	1,031	49.9	50.1
1953	2,220	2,113	1,151	1,069	51.8	48.2
1954	1,984	1,881	1,035	949	52.2	47.8
1955	2,075	1,984	1,214	861	58.5	41.5
1956	2,761	2,659	1,513	1,248	54.8	45.2
1957	2,933	2,823	1,464	1,469	49.9	50.1
1958	2,534	2,401	1,314	1,220	51.9	48.1
1959	2,708	2,571	1,472	1,236	54.4	45.6
1960	2,809	2,672	1,443	1,366	51.4	48.6
1961	2,654	2,494	1,608	1,046	60.6	39.4
1962	2,928	2,745	1,760	1,168	60.1	39.9
1963	3,163	2,979(est.)	1,785(est.)	1,378(est.)	56.4	43.6
Total						
1950-62	31,014	29,512	16,444	14,570	53.0	47.0

SOURCES: *Private and Public Investment in Canada*, Department of Trade and Commerce, Ottawa; *National Accounts, Income and Expenditure*, Dominion Bureau of Statistics, Ottawa; *Bank of Canada Statistical Summary, Supplement, 1962 and February 1963*.

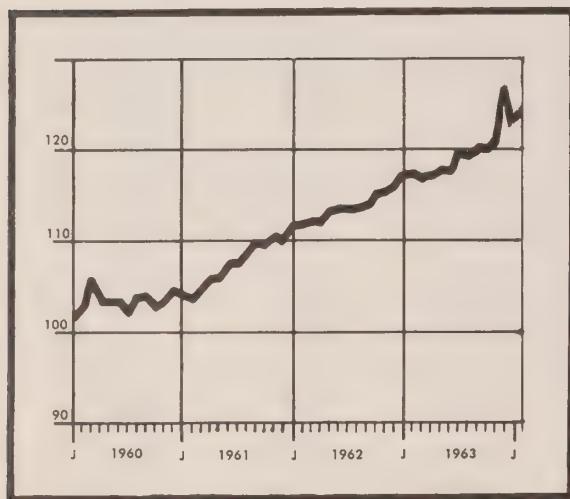
ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



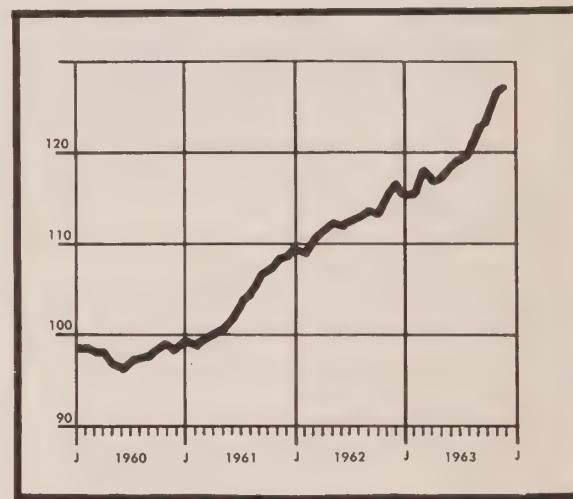
GROSS NATIONAL PRODUCT (CANADA)



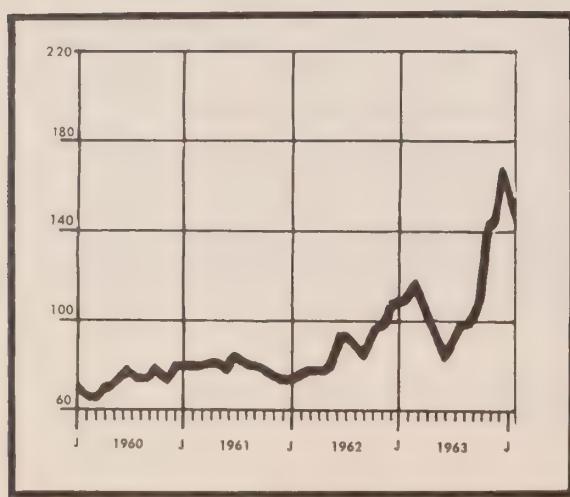
INDEX MANUFACTURING PRODUCTION (CANADA)



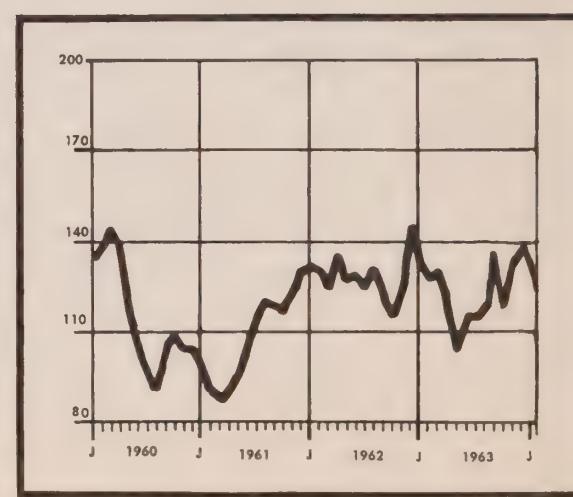
PRIMARY ENERGY DEMAND — OHPC
(ONTARIO)



NEW ORDERS IN MANUFACTURING (CANADA)

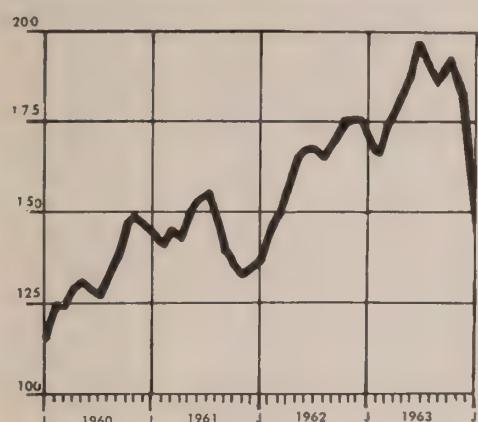


HOUSING CONTRACTS (ONTARIO)

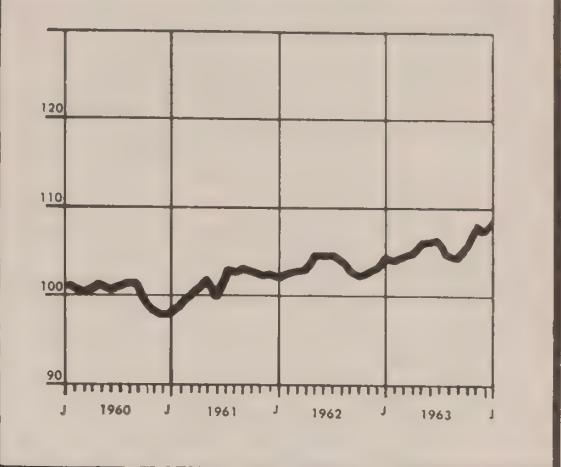


BUSINESS, INDUSTRIAL AND ENGINEERING
CONTRACTS (ONTARIO)

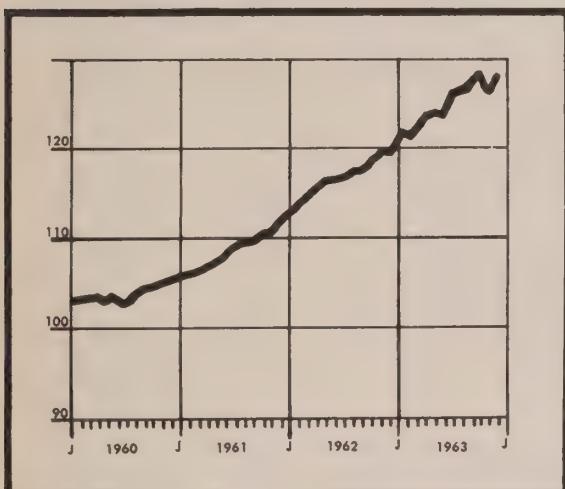
ECONOMIC INDICATORS — SEASONALLY ADJUSTED 1959 = 100



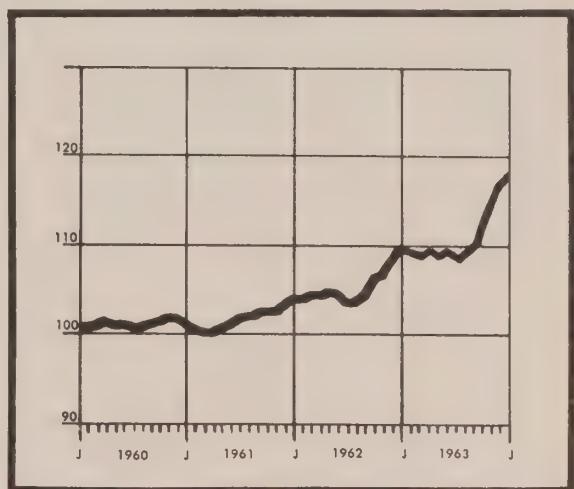
BUSINESS FAILURES — NUMBER (ONTARIO)



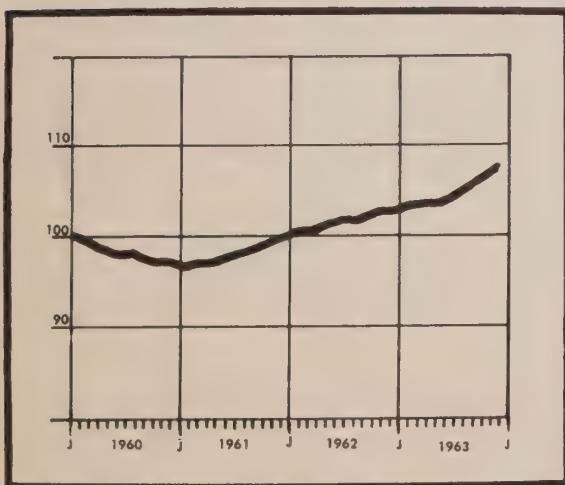
PRICES, INDUSTRIAL MATERIALS (CANADA)



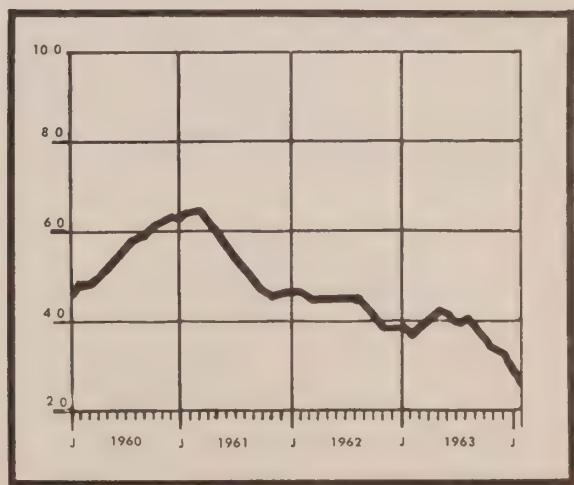
LABOR INCOME (ONTARIO)



RETAIL SALES (ONTARIO)



INDUSTRIAL EMPLOYMENT (ONTARIO)



UNEMPLOYMENT RATE — (ONTARIO)
(PER CENT OF LABOR FORCE)

ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED
 (*Figures for Canada)

	1964												
	1963												
	1962												
LEADING INDICATORS	January	February	March	April	May	June	July	August	September	October	November	December	
Average Weekly Hours Worked in Manufacturing	(No.)	40.7	40.7	41.1	41.1	40.9	40.8	40.8	41.0	40.9	41.0	40.5	
Business Failures - Number		83	81	85	88	90	93	97	94	92	95	70	
Business Failures - Liabilities	\$ 000	3,694	3,618	4,936	6,003	6,256	6,783	7,540	6,213	5,254	5,538	72	
New Orders in Manufacturing*	\$ Million	2,306	2,361	2,331	2,352	2,355	2,397	2,415	2,484	2,487	5,454	3,800	
New Dwelling Unit Starts	(No.)	3,015	3,325	3,628	3,665	4,076	4,193	4,086	4,062	3,986	5,012	5,920	
Housing Contracts	\$ Million	47.4	48.2	50.8	45.5	40.2	35.8	39.6	43.0	43.0	61.5	63.5	
Business, Industrial and Engineering Contracts	\$ Million	84.7	81.7	83.1	75.3	66.8	73.8	75.8	86.5	77.5	86.9	80.8	
Money Supply*	\$ Million	15,391	15,563	15,576	15,629	15,755	16,005	16,107	16,049	16,116	16,522	16,612	
COINCIDENTAL AND LAGGING INDICATORS													
Gross National Product*	\$ Million	-41,988											
Total Industrial Production*	1949=100	189.4	191.1	194.0	194.3	195.7	195.9	192.8	195.1	197.7	200.3	204.4	
Total Manufacturing		168.8	169.4	172.0	171.7	173.8	173.8	170.8	173.3	174.7	177.4	183.4	
Non-Durables		165.9	167.9	172.7	170.8	172.8	173.4	170.5	173.9	173.3	175.1	176.7	
Durables		172.1	171.9	171.1	172.8	174.9	174.3	171.2	172.6	176.5	180.1	187.8	
Mining		281.1	291.5	299.5	302.1	297.5	298.3	286.0	292.1	302.5	304.1	308.8	
Electric Power & Gas Utilities		351.7	353.6	351.3	356.2	358.7	361.5	373.9	366.2	373.1	376.6	390.8	
Cheques Cashed in Clearing Centres	\$ Million	3,085	3,108	3,140	3,196	3,179	3,185	3,201	3,200	3,214	3,251	3,287	
Retail Trade	\$ Million	570	569	567	570	566	568	566	564	570	583	607	
Labour Income	\$ Million	748	744	748	757	759	755	756	771	775	782	781	
Labour Force	000's	2,420	2,422	2,426	2,444	2,455	2,467	2,473	2,482	2,488	2,493	2,498	
Employed	000's	2,329	2,332	2,335	2,346	2,353	2,366	2,376	2,382	2,389	2,400	2,423	
Unemployed as % of Labour Force	%	3.8	3.7	3.8	4.0	4.2	4.1	3.9	4.0	3.7	3.5	3.0	
Industrial Employment		1949=100	125.0	125.2	125.5	125.8	126.2	126.6	127.0	127.7	128.6	129.2	
Average Hourly Earnings in Manufacturing	\$	2.01	2.02	2.02	2.03	2.04	2.04	2.05	2.05	2.06	2.08	2.10	
Primary Energy Demand - OHPD	EKWH (No.)	36.98	37.02	36.87	36.99	37.14	37.15	37.83	37.78	37.84	38.34	38.97	
New Dwelling Unit Completions		2,736	2,687	2,564	2,625	2,762	2,894	3,206	3,392	3,475	3,355	2,893	
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED													
T.S.E. Index - 77 Stocks		1956=100	129.8	125.3	127.9	134.1	136.2	131.9	127.9	129.0	132.3	133.5	
Dividend Payments*		1956=100	119.3	120.2	120.5	120.8	118.6	119.3	119.3	119.7	120.4	120.7	
Prices, Industrial Materials*		1935-39=100	250.8	250.0	250.3	252.1	254.8	254.9	255.3	251.4	251.0	254.9	
Domestic Exports*	\$ Million	530.6	424.6	487.7	514.2	647.9	515.7	592.8	543.2	586.9	624.7	670.4	
Imports for Consumption*	\$ Million	504.8	431.3	478.2	554.6	609.3	532.9	585.2	525.5	542.7	620.1	618.4	
Foreign Exchange Reserves*	\$ Million U.S.	2,663	2,594	2,600	2,671	2,712	2,692	2,701	2,568	2,471	2,631	2,595	

139.7
123.3
258.8
257.5
261.4
571.4
563.1
2,582
2,582

THE ONTARIO ECONOMY

Production and employment in Ontario continued at very high levels during the first quarter of the year. There is a strong feeling of confidence in business circles and most sectors of the economy are showing rising trends of activity. Rising consumer purchases, expanding plans for new capital investment and a high level of production in the durable goods industries are all adding to the present up-swing in the economy. The number employed rose sharply in March and unemployment is almost minimal. The U.S. economy, with reduced tax rates, rising corporation profits and with sales and manufacturing production at record levels continues to provide a firm market for some of our base metals and other raw materials.

The fourth quarter National Accounts indicates some of the basic forces behind the present economic momentum. The rise in gross national product — 3 per cent from the previous quarter — was the sharpest in the past three years of expansion. The largest advances were in exports, resulting in part from the huge shipments of wheat to the U.S.S.R.; investment in new housing, which was stimulated by the federal government's winter bonus plan; and a high level of consumer spending, particularly for automobiles.

PRODUCTION

The latest advances in total industrial production in Canada and the United States are more than matched in Ontario. Nearly all manufacturing industries are operating at or near peak production levels. Both durable and non-durable sectors have shared in this year's increases. The food, clothing, textiles, appliances, wood products, paper products, machinery, iron and steel, aircraft, motor vehicles and chemical industries are all operating at substantially higher levels than in the beginning of 1963. Motor vehicle production continues about 24 to 26 per cent higher than in the corresponding period last year.

Studebaker sales in the first quarter were off marginally from the previous year, but production in Hamilton at the end of April is expected to be double what it was at the beginning of the year. On April 13, the plant went into double-shift opera-

tion and increased its work force from 400 to 700 persons, in anticipation of increased demand.

The Chrysler Corporation is planning to transfer part of its engine work from Detroit to Windsor during the mid-summer change-over. This is said to be primarily an attempt by the parent company to take advantage of the Canadian Government's export incentive plan for the industry.

The steel industry continues to thrive on a booming automobile market, heavy demand from building contractors, a high level of activity in the many phases of pipeline construction throughout Canada, and strong export markets. Confidence in future markets has also been expressed by the huge outlays for new capital expenditures, made recently by most of the steel companies in Ontario. At the present time total steel production is running anywhere from 5 to 10 per cent ahead of production at the same time last year. In the United States, where production has not been maintained at the same high percentage of capacity as in Canada during the past year, output is rising and, for the week ended April 4, was at the highest level in 10 months. The volume of steel produced in April, moreover, is expected to be from 7 to 10 per cent higher than in March. There are indications that the present market is the best in almost a decade, but there are some warnings that it may slow up by mid-summer with the automobile change-over.

Mining production, after remaining slack for about three years, is also on the increase. Most important in Ontario is stepped-up activity in copper, nickel and silver. Indicative of this is renewed activity at Falconbridge Nickel Mines in Sudbury. Last October the company laid off about 530 workers, but 150 persons were taken back on March 30, and the company believes that by the end of July all of those laid off should be working again.

The new copper, zinc and silver strike just north of Timmins will add new life to that area, providing jobs for a number of persons who would have been affected by the eventual closing of gold mines. Hollinger Consolidated Gold Mines Ltd., in fact, had announced that it would have to cease operations by next summer.

A bleak note remains in the uranium industry. The immediate market for uranium is poor and is not expected to improve for another four or five years. Of the 25 original producers, only two — Eldorado and Rio Algom — are expected to remain operating after 1965. A recent report by Eldorado Mining and Refining Ltd. stated that by July 1, a number of workers will be laid off from operations at Elliot Lake and Bancroft.

NEW CAPITAL INVESTMENT

The favourable business climate has encouraged businessmen to expand their capital requirements. Recent examples of industrial expansion include a \$1.5 million purchase of machinery by the Rexdale plant of Mimico Steel Sales Co. Ltd.; a \$1 million plant addition by Ethyl Corporation of Canada Ltd. at Sarnia; a \$1.5 million plant expansion by Electric Reduction Co. of Canada Ltd. at Dunnville, and a \$1.3 million expansion of plant facilities by Bay Mills Ltd. at Midland.

Several new plants have been announced in Ontario. These include a \$3 million plant in Toronto for Sherbrooke Paper Products Ltd. of Montreal for a paper box operation; a \$1 million plant near highway 401 at Gananoque for Ontario Steel Products; a new steel products plant in Scarborough for a Swedish firm, Sandwick Canadian Ltd.; and a new plant in Don Mills for Diamond Alkali (Canada) Ltd., whose parent company is in Cleveland. Production at Hawker Siddeley Canada Ltd. will also be expanded with a new \$3.7 million defence contract for turbo jet engines.

Construction will also be boosted by new commercial projects which include a \$2.5 million contract to Eastern Construction Co. Ltd. of Toronto to build a supermarket in North York Township for Steinberg Ltd.; a \$3 million building in downtown Toronto for Credit Foncier Franco-Canadien; a \$2.7 million, 22-storey apartment building at Niagara Falls for Pan-O-Rama Motels Ltd.; a new building on the outskirts of Toronto for McGraw-Hill Publishing Co.; and a huge \$125 million re-development project for downtown Toronto by the Toronto-Dominion Bank and Cemp Investment Ltd.

New public and other institutional projects include plans for a \$110 million coal-fired power generating station near Sarnia by Ontario Hydro; a \$10.7 million contract to Robertson-Yates Corporation of Hamilton for an addition to the Wellesley Hospital in Toronto; and a \$1.8 million contract to Ellis-Don Ltd. of London for two additions to the biological-geological sciences building, University of Western Ontario.

The boost to residential construction given by the federal government's \$500 winter bonus plan was

extended another 15 days to the middle of April. Although the program is now over, it will be a month, at least, before it can be ascertained how much residential construction will fall off. The most recent data on housing starts is for February which, on a seasonally adjusted basis, indicated some decline from the record level of the preceding month. Housing contracts for March, furthermore, indicated a considerable drop from the previous month's high. A drop for business, industrial and engineering contracts in March extends a downward pattern for this group, begun in January.

EMPLOYMENT

Despite a weakening note in construction, overall activity in the province at the present time is high. Employment has climbed steadily for over a year. For the latest month — March — employment advanced to a new peak, on a seasonally adjusted basis. The labour force has also expanded, but additional employment creation has more than matched its pace. In March 1964, 124,000 more people were employed in Ontario than in March 1963. Since mid-summer last year, the unemployment picture has steadily improved so that in March, the ratio of unemployment to the labour force was around 2.5 per cent.

SALES

Backed up by an active business environment and expanding employment, retail sales continue to mount. In February total retail trade in Ontario touched another peak for the sixth consecutive monthly rise, on a seasonally adjusted basis. Automobile sales continue to lead the way. In the first quarter, car dealers felt their sales were about 8 per cent higher than in the first quarter of last year. In January and February, lumber and building materials were moving exceptionally well, anywhere from 45 to 55 per cent higher than in the corresponding months last year, reflecting the surge in new housing construction this past winter. Department store, grocery and combination store sales were also well ahead of last year.

A large part of the rise in sales has been on credit, as consumers continue to expand their debt. (A similar trend is also apparent in the United States). For the whole of Canada, consumer debt outstanding in January was \$4.2 billion compared with \$3.7 billion at the same time last year.

FINANCE

Loanable funds on the Canadian money market were relatively scarce throughout March. This condition essentially was an expression of investors' reluctance to commit funds in anticipation of an

upward adjustment in prevailing interest rates. Both the total money supply and the level of general loans made by chartered banks increased in March on a seasonally adjusted basis.

Exceptionally light volume and minor price fluctuations characterized activity on the Canadian bond markets during March. At times, trading activity was almost non-existent due to investors' attention being diverted largely to the equity markets. Prices of outstanding bond issues closed March at levels approximating those which prevailed at the end of February. In essence, short-term maturities were the only issues experiencing any market appreciation. New Canadian bond financings for the first three months of 1964 totalled \$846.3 million as compared with \$1,061.1 million in the comparable 1963 period. Highlighting new issues for March was a \$50 million Province of Ontario issue, consisting of \$8.5 million 5% debentures due April 15, 1973 priced to yield 5.20% and \$41.5 million 5½% debentures due April 15, 1981/84, priced to yield 5.45%.

Sharply rising prices on increased volume reflected Canadian stock market activity throughout March. Only on a very few occasions was the market's uptrend interrupted and numerous quality industrial equities posted new highs. The Toronto Stock Exchange Industrial Index advanced to new all-time closing high levels on each of the final five daily trading sessions of March and closed the month at a level of 145.35 — an increase of some 4 per cent on Index over the month. The buoyancy of the markets has continued during April.

Canada's foreign exchange reserves (official holdings of gold and U.S. dollars) declined by some

\$76.5 million during March to close the month at a level of \$2,465.5 million.

The value of the Canadian dollar in terms of U.S. funds remained relatively unchanged throughout March. At month-end it was quoted at a level of 92.55 cents, down 0.01 per cent over the month.

FOREIGN TRADE

The foreign trade picture is still improving with a surplus again in January. Imports were up about 3.2 per cent on January last year while exports were up 16.7 per cent. In February exports shot up to a level 25.8 per cent higher than February last year. The rise in exports was most prominent in newsprint, nickel, copper, aluminum and wheat. Newsprint, nickel and copper are important Ontario exports. There was also a \$4 million shipment of Ontario winter wheat in March, primarily to the Soviet Union.

Two important contracts were also let to firms in Ontario for projects outside of Canada. These were, a \$15 million contract to Revenue Properties Co. Ltd. of Toronto, to provide low-rental, new housing in a park setting for downtown Buffalo; and a \$2.5 million contract to Computing Devices of Canada Ltd. of Ottawa, to build an electronic device for aircraft navigation for the U.S. Navy and West Germany.

CONCLUSION

The economy of Ontario at present is thriving. Both manufacturing and mining production are rising. Retail trade is expanding and employment continues to grow at a faster pace than the labour force. The only potential weak spot is indicated by the decline in construction contracts.

SOME IMPRESSIONS ARISING FROM THE FIRST YEAR OF OPERATION OF THE ONTARIO DEVELOPMENT AGENCY

MR. A. ETCHEM

Director Ontario Development Agency

ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

The Ontario Development Agency was established in December 1962 with the object of contributing to the Province's economic development. The Agency's contribution to this program was designated in two major areas: —

(a) to provide financial assistance through provincial guarantees to companies which could qualify and which were unable to satisfy their financing requirements through the conventional lending institutions, and

(b) to provide counselling and advisory services to small business operating in Ontario.

In order to carry out the intent of the Legislature, the Agency has applied a basic principle in dealing with all applications for financial assistance. Will the provision of assistance accelerate the economic growth of Ontario?

Regulations approved in 1963 outline the general areas in which the Agency could operate. These regulations stipulate that applicants for financial

aid must demonstrate that the financing required is unavailable elsewhere on reasonable terms and conditions. Applicants are to be engaged in secondary manufacturing, the tourist industry, or substantially assisting our export drive or replacing imports. Special consideration is also given to introducing new products or new techniques, and to operations located in slow growth areas of Ontario.

While the regulations broadly outlined how the Agency should operate, decisions of the Financial Advisory Committee, which was established to advise the Lieutenant-Governor in Council on the granting of guarantees, have more clearly defined the types of companies which can aid in economic development.

The Committee's decisions indicate that all applications for financial assistance must be based on sound business principles. For example, applicants must furnish evidence that either the actual or the proposed management is capable of operating the business successfully; that applicants have sufficient investment in the business to demonstrate their own confidence in its success; that funds are required to ensure further growth of the business and not for mere financial readjustment; and that the company is solvent. The Committee also looks at many factors related to the application, such as whether or not adequate capacity already exists in Ontario and Canada for the goods and services proposed, the wage rates that are in effect, and other pertinent considerations.

In essence, the financial assistance program of the Agency is oriented towards those companies which can demonstrate that, with the provision of high risk capital, they can maintain or increase employment, introduce new products and techniques; increase exports or replace imports.

A good indication of the type of company that can qualify for financial assistance under the program may be gauged from the fact that 40 per cent of the guarantees so far recommended have been to companies with new products, new ideas, or new techniques. Many new ventures which have no past record of achievement, and which of necessity fall into high risk categories, find themselves outside the scope of the regular lenders. Another group of companies which has received financial support is comprised of those which in the past have encountered difficulties due to lack of adequate management, but which have subsequently reorganized themselves to help remedy this deficiency. In the latter instances, companies have been given another opportunity to contribute to our economic well-being.

To date, 37 applications for financial assistance, totalling \$4 million, have been approved. It is doubtful if any of these companies would have been in operation without the financial support obtained through the Agency. Although four companies have not proved to be successful, most of the others are operating satisfactorily and adding to our economic potential. Some of them have exceeded our expectations.

It is in the area of providing advisory and technical services, however, that the Agency is performing perhaps its most important function. None of the companies which receive this assistance are in a financial position to obtain it from the many excellent firms of management consultants which already exist in Ontario and Canada. Where applications for this type of assistance are received from companies which, in the view of the Agency, are able to pay for it, they are asked to obtain it from a management advisory group of their own choice.

Experience has indicated that overriding every other cause of business failure is the lack of management ability and techniques. In Canada, as elsewhere in the world, the demand for competent managerial, technical, and other highly skilled personnel, far exceeds the supply. The larger concerns are often able to acquire most of the special skills which are required in today's industry. With industrial processes, organizations and problems becoming more complex, and competition increasingly more severe, the requirements for these skills are growing without a proportionate increase in the supply.

In these conditions, the owners of small businesses are the hardest hit. Many have fallen by the wayside for lack of adequate management in the past 20 to 30 years, while others have survived, despite this handicap, because of relatively buoyant economic conditions.

Realizing that these conditions existed, the Agency recruited a staff of consultants, all of whom have held high executive office in industry and retired. The experience and know-how of these commerce, and who were either retired or semi-retired executives have been made available to many hundreds of companies in Ontario. In many instances, all that has been required has been to give general direction and advice.

For example, a common problem among small companies is how to obtain additional financing. Many are unaware of the sources of finance, the type of financing provided by the various institutions, and the type of financing that would fit their particular requirements. In other instances, the insertion of additional funds was not required, but

rather a review of existing costs, processes and deficiencies in operations. We in the Agency have been astonished by the large numbers of small businesses which were unaware of their costs; who were bidding on orders which were losing money without being aware of this fact; who were conducting operations which were profitable overall but were losing money on specific orders; who could achieve a profit position through a readjustment of plant layout or a reduction of top heavy administrative costs.

As noted previously, the major reason for establishing the Ontario Development Agency was to assist in the economic development of the Province. More than 80 per cent of Ontario's secondary industry is composed of small firms, and their contribution to our economic growth is very substantial. By assisting them to operate more efficiently, the Ontario Development Agency has played an effective role in maintaining existing employment and creating new jobs. The Agency has also filled a need in advising companies on some of the procedures and problems involved in exporting. This is an area of increasing concern to all industrialized countries, and an area in which Ontario and Canada will become progressively more involved over the years.

A unique feature of the Agency's activities has been the encouragement it has given to inventors and individuals and firms developing new processes and techniques.

One of the first measures taken by the Agency on its establishment was to make arrangements with the Ontario Research Foundation to evaluate any new products and techniques which came to its attention. The Agency considers this to be a highly important segment of its work because by the successful development of new products and techniques, the base of Ontario's economy will be broadened. It has been our experience that many inventors are totally lacking in business acumen. Where a new invention or process has been pronounced as feasible by the Ontario Research Foundation, the Agency has endeavoured to assist the inventor to obtain the management assistance and the financing required to put a new idea on the market. Over 70 projects have been examined by our consultants, who have worked with the Ontario Research Foun-

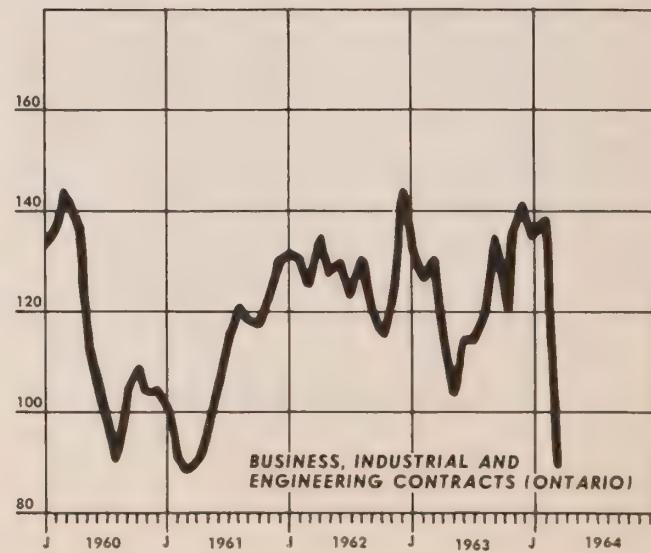
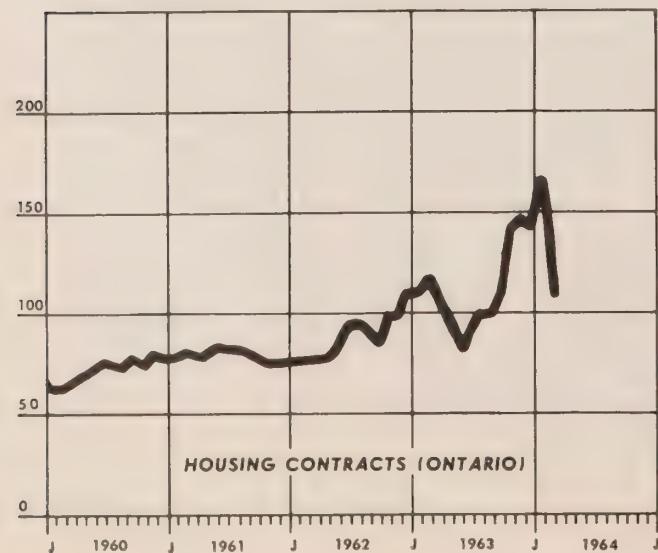
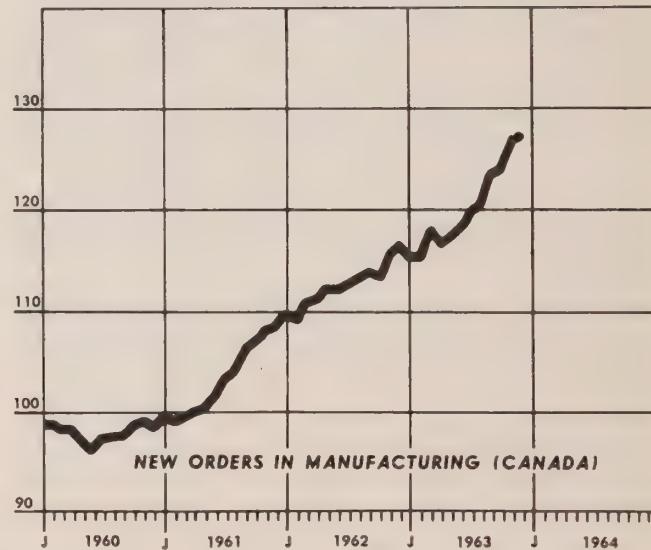
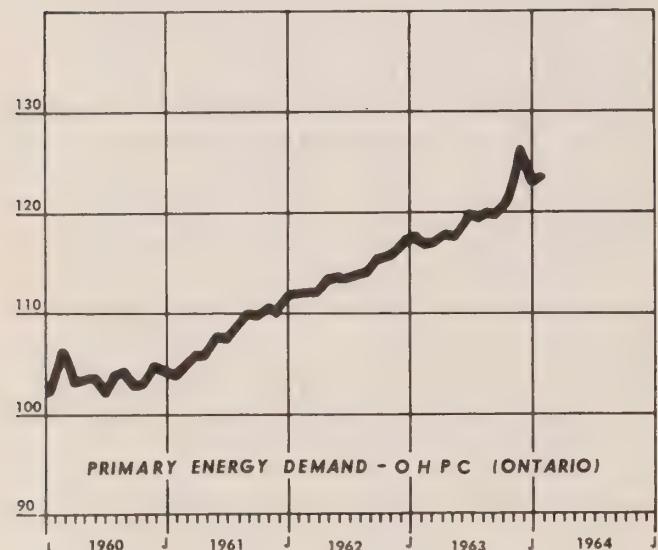
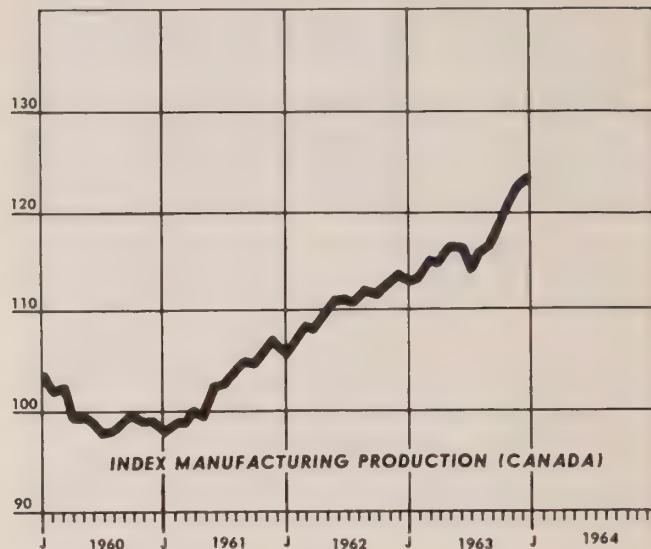
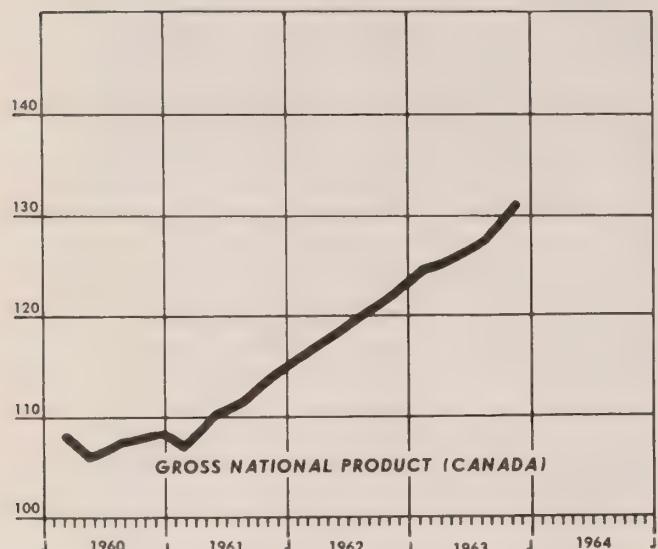
dation in evaluating more than half of them. Not all have proved to be practicable. However, 24 new products, new processes or new techniques have been established as a result of the Agency's efforts in the first year of its operation, and we are hopeful that we shall be equally successful in the future.

The Agency has also assisted companies, which did not fall within the terms of reference for a provincial guarantee, to obtain the financing that they required through regular lending institutions. We have had a measure of success in this area.

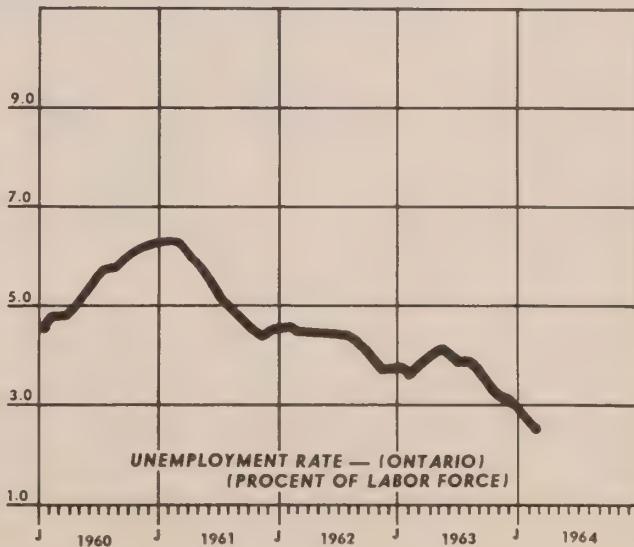
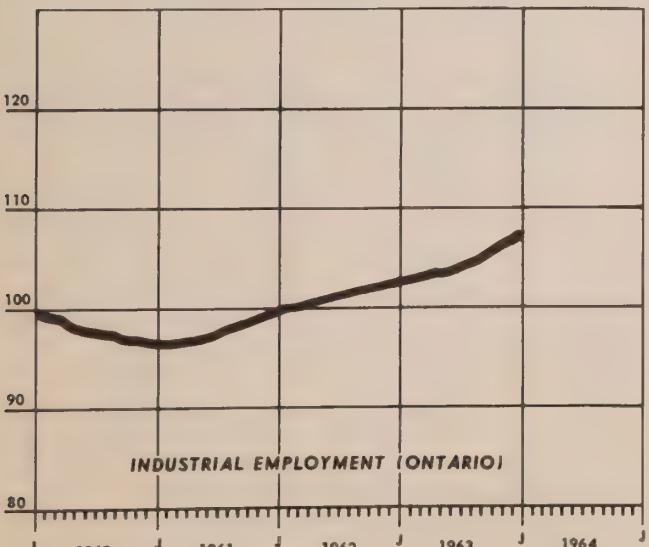
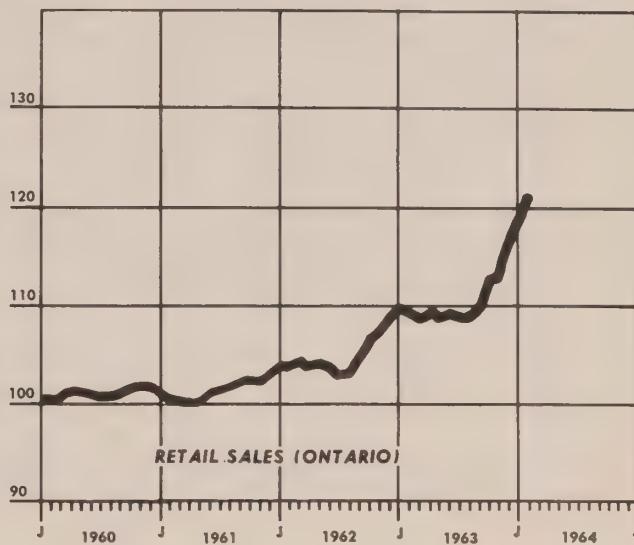
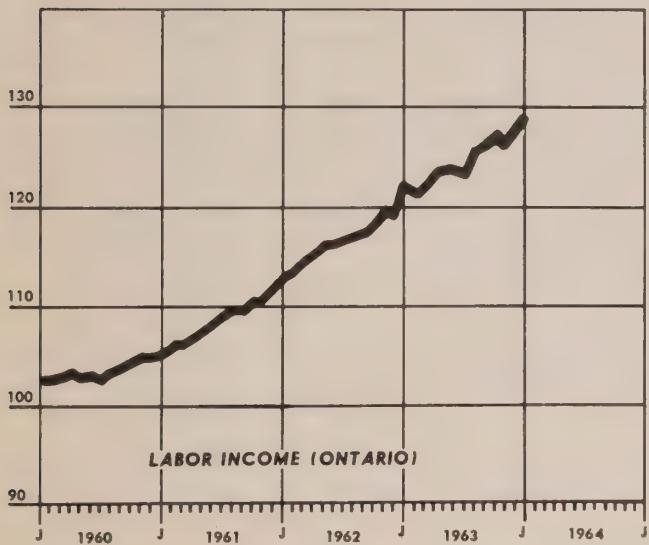
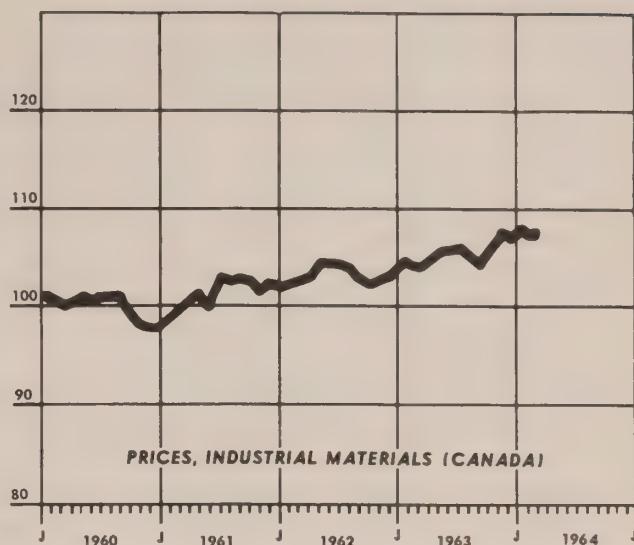
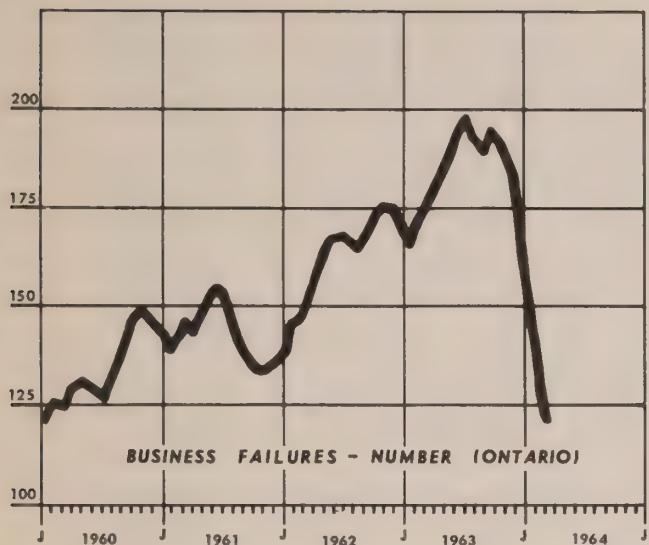
In summary therefore, our major impressions after the first year of operation of the Ontario Development Agency are that: —

- (1) Provincial financial assistance can be provided to the best advantage to new enterprises which have not had an opportunity to establish a record of achievement; to companies requiring additional working capital for export requirements; and to companies otherwise capable of operating satisfactorily who have reorganized previously unsatisfactory management.
- (2) There is a need, particularly among small business, for improved operating techniques. Many small businesses which might otherwise operate successfully, will continue to fail because they lack techniques such as budgetary control, costing systems, etc., which would pin-point their areas of deficiency.
- (3) Arising from (2) above, is the need for advisory services and skilled guidance to companies which are unable to pay for it in the normal way. Many excellent private management consulting firms in Ontario are making a substantial contribution to greater efficiency, and thus to our economic progress by their efforts.
- (4) Losses are being sustained by our economy through inability of the existing system to give adequate support, encouragement, and proper guidance to those new inventions, innovations, and techniques, which would merit such support.
- (5) Overriding all other considerations is the need for good management, particularly in small business. Lack of this vital factor, common to most industrialized countries, is hampering our economic progress.

ECONOMIC INDICATORS — SEASONALLY ADJUSTED
1959 = 100



ECONOMIC INDICATORS — SEASONALLY ADJUSTED
 1959 = 100



ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED
 (*Figures for Canada)

(*Figures for Canada)

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